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ECONOMIC INTELLIGENCE WEEKLY REVIEW

15 December 1977

Current Survey

MAJOR RECENT DEVELOPMENTS AFFECTING THE INTERNATIONAL ECONOMY

Note: This Survey, the second in a series, reviews the recent foreign economic developments that have significant implications for the growth and stability of the international economy. In particular, it summarizes the likely impact of new macro-economic policy decisions of important countries and the latest evidence of economic trends. We expect to publish a similar survey every month.

Economic Indicators in the Big Six

Economic performance in five of the six largest industrial countries outside the United States has improved in recent months. Japan is the exception; industrial production is showing signs of stagnation largely because of the more than 20-percent yen appreciation since the beginning of the year.

- Still, composite production in the Big Six turned up slightly in September after stagnating in August and deteriorating earlier in the year; France and Italy showed the most improvement.

- Unemployment in each of the six nations in September-October, although still high, was back down to the June levels. Joblessness had increased rapidly earlier in 1977.

- The seasonally adjusted annual rate of increase in Big Six consumer prices in October was less than 7.5 percent, compared with a 10-percent rate as recently as May. Italy, Britain, and France have slashed their rates by 6, 7, and 3 percentage points since May; inflation in West Germany has returned back down to pre-1973 rates.

Note: Comments and queries regarding the ***Economic Intelligence Weekly Review*** are welcome. For the text, they may be directed to [redacted] of the Office of Economic Research, [redacted] for the Economic Indicators, to [redacted] of OER, [redacted]

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- Britain, Italy, and France have posted sharp improvements in their trade balances. Italy now has racked up four consecutive months of surplus, Britain three, and France two—all after many months of steady deficits. Japan and West Germany continue to show large surpluses. (For Official Use Only)

GNP Forecasts

As a result of the slowdown in growth in the six major foreign industrial states throughout most of 1977, several US forecasts for these nations in 1977 have been revised downward. In October, Chase Econometric cut its projection for combined real growth in the six nations in 1977 to 3.2 percent from a 4.3-percent 1977 projection that it made in May. Forecasts by the OECD, Data Resources, and CIA have been similarly reduced.

The recent Chase projection of 1978 GNP growth for the six—3.7 percent—is virtually unchanged from its spring estimate, with a more pessimistic outlook for Japan offset by a sharply higher projection for the United Kingdom; the projection for Japan does not assume substantial new stimulative measures. Recent Data Resources and CIA GNP projections for 1978 for the total six are 4.7 percent and 4.5 percent, respectively.

The growth projections by the six nations themselves, made at an OECD Short-Term Forecasters Meeting last month, were almost universally more optimistic than those of the OECD Secretariat. Several of the six countries anticipated that prices would rise at a slower rate than envisaged by the Secretariat. The country forecasts, however, were apparently often more influenced by national economic goals than by fully analyzed expectations. (For Official Use Only)

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LDC Trends

Growth

Non-OPEC LDCs should turn in an overall rate of real growth of slightly less than 5 percent in 1977 compared with 5.1 percent in 1976. The small decline is heavily weighted by slower growth in Brazil and Mexico, where adjustment to earlier debt and inflation problems required contractionary policies, and somewhat slower growth in several of the export-oriented economies of Southeast Asia, which are closely linked to business trends in the industrial nations. Growth in the OPEC nations will show a sharp deceleration—from 13 percent in 1976 to 8 percent this year—as development spending levels off and oil output decreases for some producers. (Confidential)

International Borrowing

LDC borrowing on Eurocurrency and other private capital markets has risen substantially in 1977. Publicized gross commitments of funds by private bankers to the LDCs in January-September had nearly matched the $16 billion total for all of 1976. (Publicized commitments historically have accounted for at least 40 percent of all medium- and long-term external funding by the LDCs from private sources.) Mexico is the largest LDC user of foreign private loans, having obtained $2.7 billion so far this

year although faced with IMF borrowing restrictions. Other large LDC borrowers—each with more than $800 million in publicized borrowing in 1977—have been Brazil, Iran, South Korea, the United Arab Emirates, and Venezuela. OPEC borrowers were responsible for about one-third of the publicized total.

Improved LDC creditworthiness and slack Western demand for international loans have helped improve the climate for the LDC borrowers. New private commitments probably will increase again in 1978 although not at the 1977 rate. Some LDC countries continue to meet lender resistance, however. Private bankers remain reluctant to lend to Zaire because of its fiscal and political problems. Although banks seem willing to underwrite new borrowing to Brazil, the interest premiums for such loans are rising. (Unclassified)

Steel

LDC steel producers have sharply cut their expansion plans, but completion of plants still planned or under construction will accelerate the trend to LDC self-sufficiency and permit the emergence of several substantial steel exporters among the LDCs—notably Brazil, Venezuela, Mexico, South Korea, and India. The Latin American exporters could become important competitors in the US market. By 1985, LDC steelmaking capacity will be about 100 million tons, about 15 percent of Free World capacity, up from a share of 7 percent today. With the growth in LDC capacity, traditional exporters, particularly Japan, which now sells nearly one-half of its steel exports to LDCs, will be hard pressed to increase their sales to other developed nations. (Unclassified)

Articles

ITALY: COMMUNISTS LAY OUT ECONOMIC OBJECTIVES

The Italian Communist Party (PCI), hoping to improve its credentials as a potential governing party, recently issued its medium-term economic plan after months of intense intraparty debate. A recent decline in the Christian Democrats' resistence to PCI participation in government gives the document particular significance.

Secretary General Berlinguer had ordered Communist theoreticians to come up with a statement of objectives that would pacify party members restless over PCI support of the current austerity program. The party leaders see no short-run alternative to austerity and advance the plan as a follow-on program that would bring about stable economic growth and social progress. The plan offers outsiders the best opportunity to assess PCI policy positions since the 1976 election campaign. Perhaps its most striking features are a reemphasis on domestic economic planning and a shift away from protectionist measures earlier favored by party economists.

The plan sets out PCI "maximum objectives" for a period of about five years. PCI leaders argue that the medium-term focus is realistic, given Italy's economic situation; this leaves vague their long-term objectives for the "grand transformation" of Italian society. They apparently hope this approach will answer critics who demand that the party disavow allegiance to Soviet style plans for control of the society.

Reaction to the plan has been mixed. The relatively nondoctrinaire tone of the document probably has contributed to a growing impression in Italy that the Communists are moving away from the classic Marxist-Leninist model. Still, many Christian Democrats have been critical. Deputy Secretary Galloni, for example, has criticized the plan for inherent "duplicity" and has predicted that its implementation would mean the end of the free market in Italy.

What the Plan Says

A voluminous and turgid document, the medium-term plan is divided into two parts. The first, shorter section defines the political arrangements and cultural attitudes the PCI considers prerequisite to extracting Italy from its economic

difficulties. In particular, the plan urges an end to the longstanding "discrimination against the left" and admission of all parties to the governing process. The second section, which contains the core of the program, is a litany of more or less specific proposals. It advances the party's ideas for economic planning, public finance, agriculture, labor and industrial policies, and relations with the Third World and the European Community.

The Communists tout comprehensive economic planning as the fundamental solution to Italy's economic problems and belittle Rome's past efforts at indicative planning. Yet their program expresses the objective of "upgrading" and "rechanneling" the activities of the free market rather than supplanting it. The Communists would substitute their own social priorities for what they regard as the chaotic patterns of the market. Their proposed system of planning would control large-scale industry more closely than medium- and small-scale industry or agriculture. The Communists say they would develop and impose economic plans through the legislative mechanism, with the regional authorities playing a major role. Unlike their French counterparts, they do not call for outright nationalization of industry. In some undefined way, the bureaucracy would use "levers of direct and indirect public intervention" to ensure that economic units follow plan directives. The Communists foresee worker surveillance playing an important role in policing business behavior.

Labor and industrial policies are intertwined. The PCI favors government intervention to assure that investment promotes both import substitution and job growth. Its program recommends that investment be directed into labor-intensive service activities rather than into the capital-intensive manufacturing sector. To foster job creation in the backward South, the Communists propose a freeze on job levels in cities to the north. They recommend a shift in favor of take-home pay at the expense of fringe benefits and social insurance. The PCI would enhance labor mobility through special assistance to people between jobs. The program includes closer supervision of state corporations to promote efficient operation and tight control of multinationals. More broadly, the Communists advocate government review of pricing decisions.

The medium-term plan advocates greater investment in ***agriculture,*** reactivation of fallow land, and replacement of small family farming units with "cooperative" arrangements. Communist economists hope to raise farm production and reduce Italy's large trade deficits in food, which they regard as a drag on industrial growth. According to the program, the Common Agricultural Policy of the European Community has exposed Italian agriculture to damaging competition from other EC members and is the main obstacle to Italian self-sufficiency in food. The PCI demands "a profound change in the mechanism on which EC policy rests."

Regarding ***foreign economic policy,*** the PCI plan flatly rules out protectionism. The Communists express concern that integration of the European Community has slowed and attribute this to the different balance-of-payments performances of the member states. As a remedy, they suggest joint management of EC members' foreign exchange reserves. The PCI proposes that the European Community develop greater cooperation and exchange with Third World and Communist countries. In North-South relations, the Communists advocate commodity stabilization pacts, debt relief for the poorest nations, and trade concessions to LDCs.

In the area of ***public finance***, the medium-term plan strikes a rather conservative note, stressing measures aimed at reducing budget deficits. It states that deficit financing should be restricted to capital projects. The PCI recommends greater effort against tax evasion, higher and more progressive taxes on income and wealth, and curbs on public spending. To hold down outlays, the Communists would abolish certain agencies that have been prime patronage vehicles for the Christian Democrats and put a freeze on the hiring of administrators. The PCI would lower payroll taxes for social insurance, making up the revenue loss with heavier direct taxation. They would reduce the present large deficits in the social insurance system by scaling down health benefits, imposing some charges for medical services, and tightening up the policing of claims for disability pensions.

Evaluation

The most controversial part of the medium-term plan—and the one that prompted the attack by the Deputy Secretary of the Christian Democrats—is the section on economic planning. The call for governmental control of the economy is broader and more strident in the new plan than in earlier PCI pronouncements. The Communists would use economic planning to divert resources away from activities shown by the market to be more efficient and into activities to which the PCI assigns higher priority. To this end, the Communists seek greater government influence over pricing, employment decisions, credit allocation, and, most especially, investment.

In treating labor and industrial policy, the plan follows earlier PCI documents in steering clear of the delicate issue of wage reform, especially modification of the wage indexation system or any admission that inflation and unemployment might be exacerbated by rapid wage increases. The plan merely exhorts workers to be more productive and offers a vague promise of voluntary wage restraint once the grand transformation has been achieved.

PCI agricultural policy is misguided in its focus on self-sufficiency in food. In a country with such poor agriculture, self-sufficiency can be achieved only through a

wasteful propping up of the farm sector. The Communists fail to recognize that one of the main benefits of Italian membership in the European Community has been the elimination of small, inefficient farms, which has freed labor for more productive employment. Basically, the PCI has carried forward its past opposition to the Common Agricultural Policy.

The medium-term plan seems to ignore potential gains from trade. The Communists not only urge autarky in agriculture but also press for expansion of import substitution industries to the exclusion of export industries. Yet they plump for EC integration, apparently believing that a stronger, more unified Europe would counterbalance both US and Soviet influence. The suggestion that EC members pool their foreign exchange reserves is impractical at best, so long as the different countries show wide variation in their payments balances. PCI rejection of general protectionist measures is a sharp turnabout; after the lira crisis of early 1976, the Communists strongly endorsed import quotas and exchange controls. Improvement in Italy's balance of payments or a more realistic assessment of its vulnerability in any trade war may have prompted the change.

PCI recommendations for public finance are largely directed towards the central government, where the Christian Democrats have been dominant. Paradoxically, the greatest progress toward reduction of deficit spending has been at this level. As in earlier PCI statements, little is said about the escalating deficit spending of regional and municipal governments, many of which are Communist controlled. Communist suggestions for refinancing and tightening up the social security and health systems would be inadequate to make the systems solvent. (Secret Noforn)

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EUROPEAN JOINT FLOAT: FURTHER REALIGNMENT

The appreciation of the West German mark—sparked in part by the recent movement of funds out of US dollars—is again putting pressure on the European joint float.* Even though only three months have passed since the last exchange rate realignment and the withdrawal of Sweden from the float, divergent economic trends among the remaining participants could shortly lead to another realignment. Float members have spent more than the equivalent of $1.8 billion since 1 November to support their exchange rates. All non-Deutschemark currencies have fallen to their

**The joint float, or snake, is a monetary arrangement under which Norway, Denmark, Belgium and Luxembourg, the Netherlands, and West Germany agree to maintain their exchange rates within a fixed band of 2.25 percent while floating against other major currencies.*

lower float limits within the last three weeks. There is little economic justification for their continued appreciation against the dollar if the Deutschemark continues to strengthen. The float has slowly disintegrated since its inception in 1972, having lost the United Kingdom, France, and Italy, as well as Sweden. Dissolution may not be far off.

Economic Performance Out of Step

The failure of the less powerful snake members to match West German economic performance has repeatedly caused changes in the joint float. In the last five years, 10 European countries have participated in the snake; today six remain. Italy and the United Kingdom abandoned the float during its first year. France withdrew from the float, reentered, and withdrew again. Sweden, as associate member, left in August 1977. The remaining members have avoided a similar fate, largely because their currencies are not widely held and traded. The float is now a de facto Deutschemark zone.

The low West German inflation rate constitutes the major underlying pressure for another realignment. The West German consumer price index has been rising at a 3.8-percent annual rate since the last Deutschemark revaluation in October 1976. By contrast, the rate for the other members has been averaging 8.3 percent, ranging from 6.2 percent in the Netherlands to 11 percent in Denmark.

Joint Float Countries: Price and Trade Statistics

Percent

	Consumer Price Changes [1]	Wholesale Price Changes [1]	Share of Exports Going to Snake Partners	Share of Imports Coming From Snake Partners
West Germany	3.8	1.7	22	24
Belgium-Luxembourg	6.7	1.8	42	40
Denmark	11.0	6.9	27	33
Netherlands	6.2	6.2	48	38
Norway	9.4	6.1	20	25

[1] Latest three months over a comparable period of a year earlier.

The more comprehensive wholesale price indexes are rising more than three and a half times faster in Denmark, Norway, and the Netherlands than they are in West Germany. The Belgian index, which has wholesale prices rising only slightly faster than in West Germany, is suspect. Other Belgian inflation indicators show much higher price increases. Their faster inflation rates, on top of the Deutschemark appreciation, are reducing the international competitiveness of the exports of the other

five countries. Norway and Denmark are particularly hard hit as the currency of their major Scandinavian competitor, Sweden, continues to depreciate. They will probably require exchange rate adjustments soon.

Commitments to the Snake

Despite strong public pronouncements of support for joint float from all participants, rumors of its breakup are multiplying. Some commentators expect its demise before spring.

West Germany is the key to the future of the joint float. In addition to their public commitment to the float, the Germans philosophically prefer stable exchange rates and support the concept of a European monetary union under the auspices of the European Economic Commission. The joint float was originally envisioned as a first step toward such a union. Since the European Community is again trying to develop a program of working toward this goal, Bonn probably wishes to preserve the float as long as possible.

Despite political commitment, economic justification for the snake is questionable from the German viewpoint. Since the inception of the snake, the Bundesbank has repeatedly intervened heavily in exchange markets to maintain float parities. This intervention has often caused the money supply to grow faster than desirable to hold down domestic inflation. If domestic inflation goals are endangered again or market intervention becomes too expensive, Bonn would favor realignment. It may also propose a period of free floating for snake currencies as it reportedly did before the realignment of October 1976.

Belgium is the most adamant supporter of the current exchange-rate parities in the joint float. Brussels sees little export advantage to be gained by depreciating its currency. Its steel industry suffers from slack international demand; steel exports would not pick up significantly even with a major exchange-rate shift. In addition, the government believes that an appreciating Belgian franc has been a major factor in bringing down inflation. Since two-fifths of the Belgians' trade is with snake partners, their commitment to the float will remain strong.

The ***Netherlands*** also has a high economic stake in maintaining the joint float. Over two-fifths of its trade is with snake partners. While energy exports have kept its current account in surplus, its manufacturing sector has been losing competitiveness in nonsnake markets. Some business sector sentiment now leans toward a guilder depreciation to help compensate for the loss of competitiveness.

Denmark publicly supports the joint float without any further devaluations. Concerns about inflation again play a major role. Economic Affairs Minister Per Haekkerkp said that a devaluation of the krone would shake up the Danish incomes policy and diminish the credibility of future incomes policies. Copenhagen will have difficulty maintaining its stand on the joint float, however, since its current account is $1.5 billion in deficit and its inflation rate is the highest of any float member.

Norway gains the least from the joint float. Since neighboring Sweden dropped out, less than one-fourth of its trade is with snake members. In contrast to its bright future based on North Sea oil, Norway will probably suffer a record current account deficit of nearly $5 billion this year. The nonenergy sectors have had to cut profit margins in an effort to preserve their competitive advantages as costs, particularly wages, continue to rise.

Prospects

A realignment of currencies within the European joint float seems a distinct possibility before spring. A period of free floating, amounting to unofficial dissolution, or an official breakup of the joint float arrangement cannot be ruled out. Failure to maintain a strong joint float demonstrates that a European monetary union is still a long way off. (Secret Noforn)

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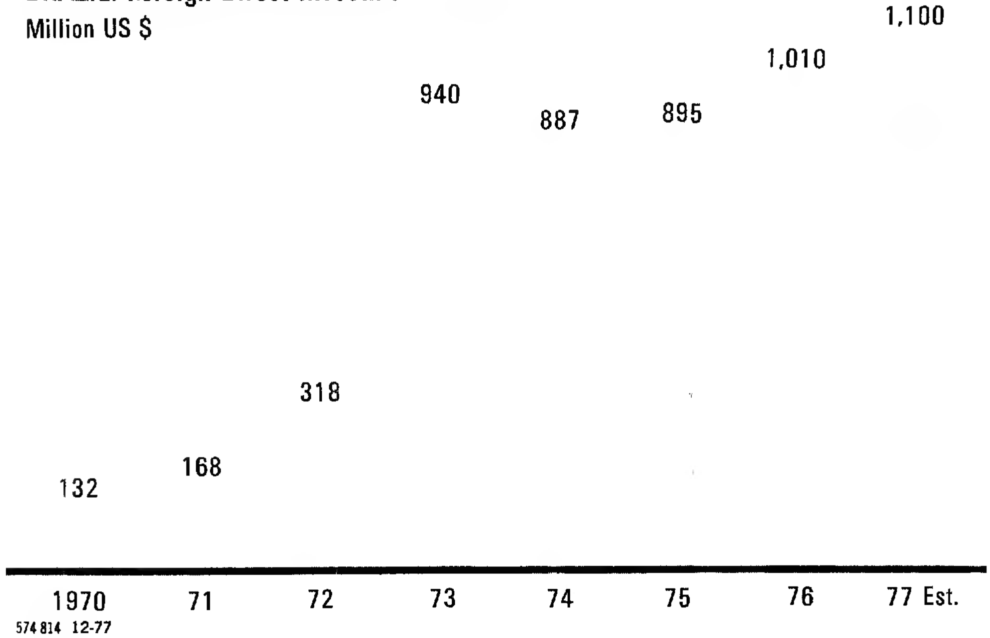
BRAZIL: MOUNTING PROBLEMS FOR FOREIGN INVESTORS

Brazil is moving away from its previous strong encouragement of practically all foreign investment.

Although the door remains open to outside business firms, the government has adopted measures during the past two years to channel foreign funds into specified import substitution sectors and to limit the import dependence of new ventures. Brasilia is now pressing for greater domestic equity participation in new projects and is taking steps to protect the domestic market position of Brazilian-owned firms. Foreign investors also are being hit by the government's limitations on credit, cutbacks in public spending, and efforts to trim imports. We have no evidence that implementation of any of these measures discriminates against US investors. Despite the new government policies, the pull of Brazil's large domestic market and vast resources will keep investment inflows high over the next few years. The US share of foreign

BRAZIL: Foreign Direct Investment Inflows



investment in Brazil will continue to drift downward relative to the West European and Japanese shares.

The New Controls

Tightened regulation of new foreign investment is being implemented through cutbacks of the tax and credit incentives previously granted automatically to most foreign and domestic investors. These incentives consist of: (a) exemptions from duties and deposit requirements on imported capital goods, (b) exemptions from value-added taxes on capital goods wherever obtained, (c) accelerated depreciation on domestically produced capital goods, and (d) subsidized credit for customers of new firms.

To qualify for those incentives, investment projects must now either expand Brazil's export potential or contribute directly to import substitution in such areas as metals, chemicals, fertilizer, and specified machinery and equipment. Moreover, they must allow substantial Brazilian equity participation and must use domestic capital goods and materials. Even if these conditions are met, incentives may be withheld from foreign business that threaten the positions of locally controlled firms.

Brazil: Cumulative Foreign Direct Investment, by Country of Origin

	Yearend 1969		Yearend 1973		Mid-1977	
	Million US $	Percent	Million US $	Percent	Million US $	Percent
Total	**1,710**	**100.0**	**4,579**	**100.0**	**9,824** [1]	**100.0**
United States [2]	816	47.7	1,717	37.5	3,125	31.8
West Germany	177	10.4	521	11.4	1,218	12.4
Japan	55	3.2	318	6.9	1,077	11.0
Switzerland	105	6.1	357	7.8	965	9.8
Canada	168	9.8	360	7.9	483	4.9
United Kingdom	109	6.4	324	7.1	413 [3]	4.2
France	35	2.0	205	4.5	312 [3]	3.2
Panama	49	2.9	132	2.9	294 [3]	3.0
Luxembourg	17	1.0	108	2.4	203 [3]	2.1
Netherlands	8	0.5	96	2.1	202 [3]	2.1
Other	171	10.0	441	9.5	1,532	15.5

[1] Includes reinvested earnings of $3,033 million.

[2] Based on Brazilian figures, which are as much as 50 percent less in value than corresponding US Department of Commerce data.

[3] Mid-1976 data.

The rules are being strictly enforced. New investment projects with majority foreign equity now make up only 5 percent of the total value of the projects receiving incentives, down from 25 percent in 1975. Moreover, the share of foreign equipment used in approved projects has dropped from 50 to 35 percent over the same period. In line with its policy of protecting the market position of local firms, Brasilia recently turned down a proposed IBM-owned minicomputer plant to avoid undermining a local operation.

Effects of the Austerity Program

Foreign investors have also been hurt by increasingly severe austerity measures since 1974. Stiff import deposits required on components and materials have forced a shift to domestic substitutes, thereby considerably increasing production costs. Credit restrictions for businesses and consumers have made access to local credit more difficult and have cut demand for many products—particularly consumer durables such as automobiles—in which foreign investors have a substantial stake.

Brasilia has also slashed public investment spending this year, curtailing road and dam projects needed to support major foreign investment ventures slated for the Amazon and other northern areas. Moreover, the government has substantially

reduced funds allocated for proposed joint ventures with foreign firms and is demanding that foreign investors make up the difference.

Impact and Investor Reaction

The new rules are forcing investors initiating new projects or expanding established operations to choose between making adjustments to qualify for incentives or sacrificing their benefits. Since tax exemptions alone save more than 40 percent of the equipment costs of new undertakings, most investors probably will adjust by shifting into new areas of production and making increased use of joint ventures with Brazilian nationals.

Even so, several major projects have been stalled or canceled. Implementation of Japanese agreements to invest at least $700 million of equity capital in joint export-oriented projects over the next few years has been delayed. For instance, Japan is reluctant to initiate its share of a $1.4 billion aluminum complex, and Japanese investors are considering pulling out of the jointly planned Tubarao steel mill. US Steel recently backed out of the Carajas iron ore project with Brazil, prompting the government to shelve the $3.5 billion project.

Brazil: Cumulative Foreign Direct Investment, by Sector
Mid-1976

	Million US $	Percent
Total	8,003 [1]	100.0
Manufacturing	6,089	76.1
Chemicals and petrochemicals	1,114	13.9
Transportation equipment	1,055	13.2
Communications equipment	691	8.6
Primary and fabricated metals	642	8.0
Machinery	605	7.6
Food products	368	4.6
Pharmaceuticals	309	3.9
Textiles	238	3.0
Rubber	176	2.2
Paper	171	2.1
Other	720	9.0
Mining and smelting	203	2.5
Public utilities	226	2.8
Technical services	508	6.3
Finance	383	4.8
Trade	224	2.8
Other	370	4.6

[1] Including reinvested earnings.

These adjustments have yet to cause a drop in total inflows of foreign direct investment, mainly because of the continuation of large projects already under way and the coincidence of investor interests with the new rules in some fields. Foreign food processing and agricultural equipment firms, for example, are expanding capacity to supply both domestic and export markets, reflecting the boom in agriculture as well as Brasilia's investment priorities.

Outlook

The new situation has at least temporarily dimmed the attractiveness of Brazil as a location for foreign investment. New investment inflows will remain sluggish in some fields over the next few years, until austerity is relaxed and investors adjust to the new rules. Investment in many export-oriented industries will remain slow until economic recovery strengthens in the industrial nations.

Foreign investment nonetheless should remain at high levels over the next several years. Investors will continue to be attracted by Brazil's rich mineral and agricultural resources and its huge domestic market, the largest in the Third World. Most of the steam behind investment inflows will come from new projects in government-favored areas such as agricultural processing, chemicals, fertilizer, paper, and industrial equipment. West European and Japanese investors will likely continue to provide the bulk of the funds, further whittling away the US share of foreign holdings in Brazil. (Confidential)

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POLAND: GROWTH AND CONSUMPTION POLICIES IN JEOPARDY

Gierek's twin policies of rapid economic growth and more consumer goods are in serious trouble and cannot be pursued without further massive foreign credits. Sufficient direct economic aid cannot be arranged. This leaves large-scale rescheduling of Poland's debt to the West as the only way to obtain enough balance-of-payments relief to avoid unsettling domestic policy adjustments. Without such assistance, Warsaw almost certainly will have to cut industrial imports and heavy industrial production to shift resources to agriculture and consumer industries. Otherwise, the regime risks even more dangerous flareups of popular discontent.

Economic Policy Errors

Since coming to power in 1970, party boss Edward Gierek has sought simultaneously to modernize the economy and to raise living standards, a strategy that has entailed tremendous infusions of Western equipment and technology—largely on credit. The strategy worked for a time. Real GNP grew 7.3 percent annually in 1971-73; real incomes also grew rapidly, leading to a surge in consumer spending. The hard currency debt mounted rapidly in these years, but it remained manageable. By 1974, however, difficulties emerged that still plague the Polish economy. Some problems were beyond Warsaw's control, particularly (a) unfavorable weather, which contributed to stagnation in agricultural output, and (b) the Western recession of 1974-75 and the subsequent anemic recovery, which retarded Polish export growth.

The regime compounded its problems with critical policy errors. With the onset of the Western recession, most other East European countries cut back plans for imports from the West and even economic growth plans. But the Poles were driven by their desire to transform Poland rapidly into an industrialized nation and their perception that domestic political stability was closely linked to improved living standards. Warsaw therefore continued to pursue its ambitious investment and growth targets, thus increasing Polish demand for imports of Western industrial goods. Moreover, the poor harvests forced Poland to boost imports of Western grain and feeds to support livestock production. In the meantime, Polish exports failed to keep pace with the soaring imports because of reduced Western demand. Meat exports also had to be cut to ease consumer unrest over shortfalls in domestic meat supplies. By 1976, Poland's hard currency trade deficit reached $3.3 billion—as large as its hard currency exports—and yearend debt to the West exceeded $10 billion.

The government also blundered in agriculture. As a result of the poor harvest, many private farmers (who produce about 80 percent of Poland's meat) became dependent on purchased feeds to sustain their livestock herds. The higher prices of these feeds, however, were not matched by increases in government livestock procurement prices. Facing a profit squeeze, many farmers cut back on their herds beginning in 1975, thus curtailing livestock output in 1975-77 and contributing to severe meat shortages.

Meanwhile, consumer incomes continued to grow above plan, primarily because of unplanned increases in worker bonuses. The 11-percent average annual growth in the real value of personal income during 1971-76 far outstripped the ability of the economy to provide consumer goods and services. The result was a pileup of zlotys, longer queues, sporadic disappearance of goods from shelves, more back-door transactions, and, in general, smoldering consumer grievances, particularly with respect to meat shortages.

The meat problem could have been largely avoided if the government had let meat prices, frozen at unrealistically low 1966 levels, rise gradually over the years. But the regime procrastinated for fear of adverse consumer reaction. When it finally raised prices in 1976, the government again blundered. The announced average 69-percent boost in meat prices was too much for the consumer to accept; riots in several cities forced cancellation of the hikes the next day. With the price option pushed to the back burner, the regime is now attempting to deal with the consumption problem by boosting domestic meat production. To encourage the farmer to produce more meat it has increased prices paid to private farmers for livestock, brought farmers into the national retirement system, agreed to permit private farmers to purchase more land from the state, and continued to import large amounts of grain.

Warsaw has made some attempt to bring its hard currency deficit under control. Imports from the West have been cut slightly, thanks partly to increased Soviet oil deliveries and last year's 1 billion ruble Soviet credit, which allowed Warsaw to shift some of its hard currency raw material purchases to the USSR. But efforts to boost exports continue to be thwarted by sluggish Western economic recovery and soft world prices for major Polish exports. The trade deficit with the West is expected to exceed $2.5 billion in 1977, pushing Poland's hard currency debt to $13 billion. Debt service now takes almost 60 percent of merchandise export earnings from the West.

The Economic Outlook

Current Economic Plans

In December 1976, the Gierek regime announced a revised 1976-80 economic plan, which calls for high, if slightly reduced, rates of economic growth. National

income and industrial production are slated to grow at annual rates of 7 percent and 8.5 percent, respectively. Investment growth is to be drastically reduced from the rapid 18-percent annual pace in 1971-75, to 3 percent per year in 1976-80. Investment will be used mainly to complete projects already under way rather than to start new projects.

To ease consumer unrest, the regime elevated consumer targets in the revised plan. The share of total investment allocated to agriculture, housing and communal services, and the food industries was raised from 35 percent in the original draft of the 1976-80 plan to 45 percent for the plan period. At the same time the livestock production targets were lowered to more realistic levels, as were planned goals for meat consumption.

The Poles now plan for exports to the West to increase by about 15 percent annually in constant prices. Imports are targeted at roughly 5 percent, down from the 33-percent annual real growth achieved in 1971-75. These goals—based on 1975 trade results—would have allowed Poland to balance its trade with the West by 1980. The targets are unattainable in view of the worsening trade problems since 1975, and the goals probably have been further revised.

Even with zero import growth, Poland might come close to achieving its economic growth plans. Imports of Western machinery and equipment, almost 40 percent of Poland's hard currency imports, can be curtailed for a time without much effect on economic growth because of a large supply of equipment in the pipeline and some excess plant capacity.

Agriculture—A Key Problem Area

Agriculture will be a major problem for the remainder of the decade. Good, or even normal, weather should enable grain and fodder production to quickly regain 1971-73 growth rates, but sizable imports of animal feeds still will be required. Without these imports, livestock production cannot reach even the lowered consumption target for 1980. Moreover, meat production is not likely to increase in the next 12 to 18 months, requiring continued meat imports to partially satisfy consumer demand.

Potential For Increasing Exports

Polish planners anticipate that a considerable share of the targeted growth in exports to the West in 1976-80 will come from a rapid rise in exports of machinery and equipment. Most of these new exports are expected to come from new plants built with almost $17 billion of Western equipment acquired in 1971-75.

Western capital equipment primarily was earmarked for the heavy machinery and chemical industries—industries that have never been significant in Poland's hard currency export structure. For example, many investment goods were allocated to the production of automobiles, construction equipment, and aircraft, especially engines. In many cases, Poland imported complete plants or licenses to produce highly sophisticated end products, or both. Poland also has invested heavily in the production of household appliances and, more recently, electronics. Some of the equipment purchased is now obsolete. Import substitution industries—such as steel, cement, and pulp and paper—also were given priority in the allocation of Western investment goods. The traditional export sectors—elementary machinery and machine tools and some metal products—were largely neglected.

Some Polish economists now question whether Poland has developed a viable export structure. They point out that serious difficulties have developed that may restrict the expansion of exports of machinery and chemicals to the West, including:

- Tariff and nontariff barriers that narrow access to Western markets.
- The inability of Polish production to adjust rapidly to changes in foreign demand.
- Poor quality of many manufactures.
- A lack of marketing, servicing, and advertizing expertise as well as problems in supplying replacement parts.
- Rising competition for petrochemical markets from newly developed industries in East European and OPEC countries.

In short, the Poles seemingly have created an industrial structure that will not generate large exports to the West and at the same time, will remain highly dependent on increased inputs of Western industrial materials. Poland would have been better advised to have used the imported Western equipment to expand and modernize less prestigious industries producing marketable exports and needed domestic goods.

Growing Financing Problems

Poland cannot expect to receive large untied credits from Western banks on a continuing basis to finance imports. Some Western banks are now reluctant to provide even project-related loans, while others are approaching legal or self-imposed limits on lending to Poland. Potential Western government credits are not likely to fill the gap. Unconditional assistance from the IMF, should Poland join, probably would total, at the most, $600 million over the next few years. Any larger amount would require

abiding by IMF restrictions on the Polish economy—a requirement that Warsaw almost certainly would not accept.

The Poles could approach the Soviets for additional aid, but Moscow is not in a position to provide sustained balance-of-payments support. Moreover, the Soviets are reluctant to continue bailing out an ally whose economic policies it considers dubious and whose standard of living is substantially higher than the Soviet standard. Moscow probably would only extend sizable aid if Poland's political stability were threatened. In return, Moscow would expect the Poles to adopt growth, trade, and consumer policies that the Soviets consider more realistic.

Consequently, large-scale rescheduling of Western debt is the only option that could provide sufficient balance-of-payments relief. With no rescheduling, Polish imports are likely to drop sharply over the next few years even if debt service is held to the current 60 percent. Historically, few countries have been able to run a 50-percent debt service ratio for long. A substantial rescheduling—covering about one-half of repayments and associated interest falling due in 1978-80—would be required to keep imports through 1980 near the 1977 level.

Impact on the Economy

The cutback in imports from the West eventually would force Poland to reduce its rate of economic growth. Although the almost inevitable reduction in machinery and equipment imports may not have much immediate impact on output, the Poles also would have to reduce imports of industrial materials. With rescheduling, these reductions could be postponed.

The main impact on the consumer of a cutback in economic growth would be reduced growth of wages and other worker benefits. The government probably would try to avoid curbing the growth of consumer goods production. The Poles no doubt would cut other imports before sacrificing necessary grain purchases. The same holds true for imports of Western consumer goods, already at minimal levels. The availability of such items—although mainly for hard currency—is a small safety value for frustrated shoppers who cannot find attractive goods on the domestic market.

For political reasons, the Polish leadership would move unobtrusively in any retrenchment in growth policies. Gierek's tenure as party leader has been marked by rapid economic growth with a concomitant rapid percentage rise in the standard of living. To abandon this strategy now would mean discrediting his past policies and would enhance the chances for his ouster. (Secret Noforn)

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Notes

Common Fund Talks Shift to UN After Geneva Breakdown

LDC suspension of the Geneva negotiations two weeks ago has shifted discussions of the common fund to the UN in New York. The Group of 77 (the LDC's UN caucus) blames the breakdown of the Geneva negotiations on the industrial countries' failure to accede to LDC demands for direct government contributions and inclusion of a development assistance window; a UN resolution tabled by the Group of 77 restates this view.

The public display of unity in the Group of 77 shown in suspending the Geneva talks contrasts sharply with the inability of the caucus to agree on substantive issues, including whether changes in its position should be made to facilitate industrial country agreement to a common fund. Radical African representatives, supported by the South Asians and a few Latin Americans, would not budge on this issue. Their adamant stand was seemingly rewarded at the end of the talks when (a) the industrial countries offered a fairly conciliatory statement, and then (b) the Nordics, Dutch, and Austrians each made separate statements supportive of the Group of 77. These actions likely will encourage the unrealistic belief of some LDCs that the industrial countries will eventually accept the Group of 77 formulation of the common fund. UNCTAD Secretary General Corea and other moderate LDC representatives wishing to maintain a dialogue with the industrial countries are likely to arrange a reopening of the common fund negotiations sometime next spring. Unless they are also able to change the uncompromising positions of intransigent Group of 77 countries, however, the prospects for an agreement are poor. (Secret Noforn-Nocontract)

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[redacted]

Bauxite Producers Get Together On Minimum Price

The International Bauxite Association (IBA), meeting in Jamaica last week, adopted a $24-per-ton minimum price for bauxite delivered in the United States and Canada next year. Minimum delivered prices will vary accordingly in other markets. The agreement—the first concerted pricing action by IBA, whose members control 75 percent of world bauxite output—will have little or no effect on the going US price, which now averages $30 per ton for imported bauxite. Rises in non-US markets are more likely, for example, for Japan, which now pays $12 per ton delivered for Australian bauxite.

The accord caps a four-year effort, primarily by Caribbean members of IBA, to induce Australia to go along with a minimum price formula. The Caribbean producers, through tax levies on bauxite production, have more than doubled their charges for bauxite and alumina since 1973. Other producers, including Australia (the world's largest), have increased prices more gradually. IBA control of bauxite supplies is weakening as production expands in nonmember countries like Brazil. (Unclassified)

Publications of Interest*

China's Economy
(ER 77-10738, November 1977, Unclassified)

This publication focuses on recent developments in both the domestic economy and the foreign trade sphere.

China's International Trade, 1976-77
(ER 77-10674, November 1977, Unclassified)

This publication provides an overview of PRC foreign trade in 1976 and the prospects for 1977. A statistical appendix covers the direction and commodity composition of trade.

* *Copies of these publications may be ordered by calling* [redacted] 25X1A

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National
Foreign
Assessment
Center

Economic Indicators Weekly Review

15 December 1977

ER EI 77-050
15 December 1977

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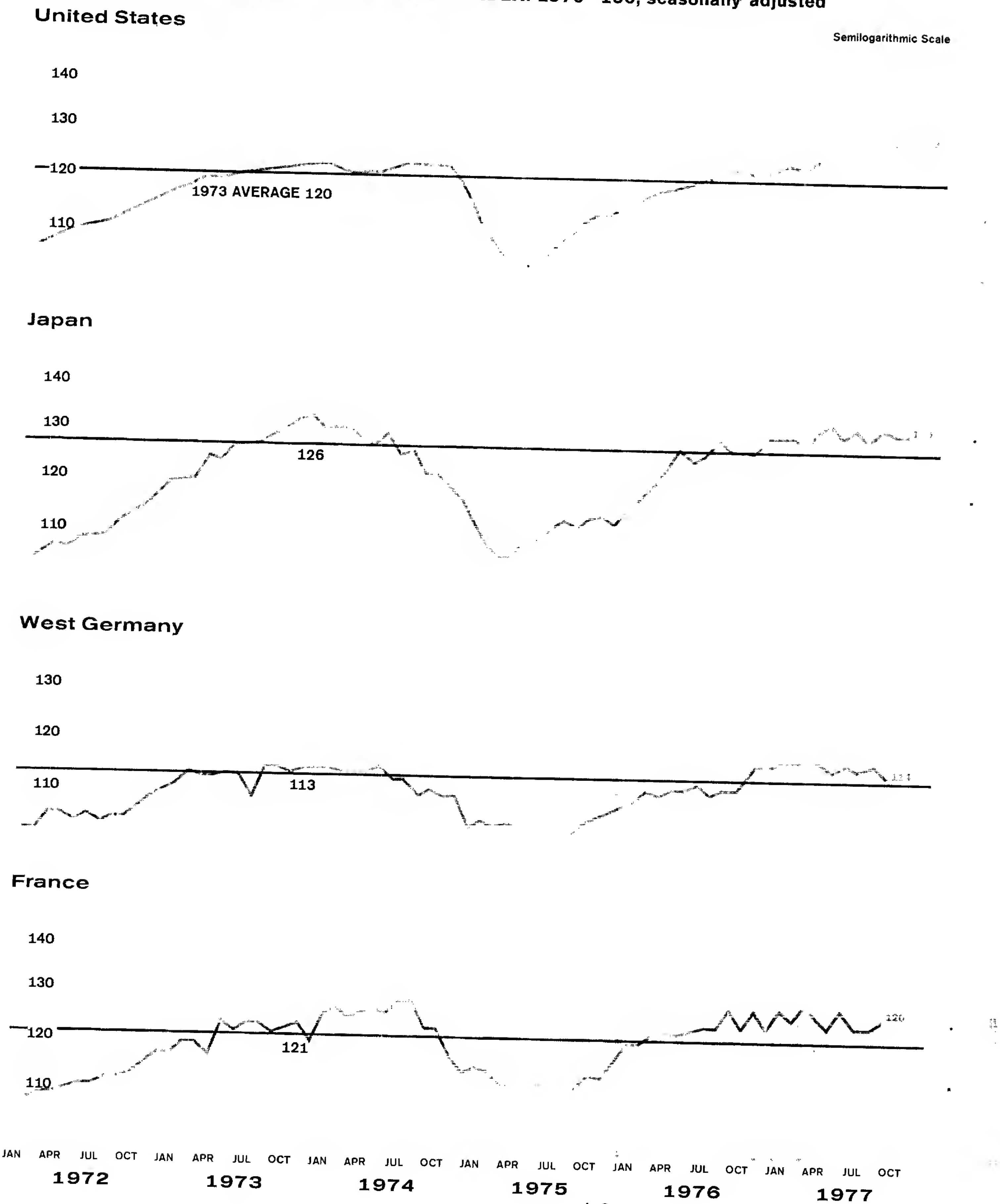
FOREWORD

1. The **Economic Indicators Weekly Review** provides up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the **Economic Indicators Weekly Review** is updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks—or sometimes months—before receipt of official statistical publications. US data are provided by US government agencies.

2. Source notes for the **Economic Indicators Weekly Review** are revised every few months. The most recent date of publication of source notes is 20 October 1977. Comments and queries regarding the **Economic Indicators Weekly Review** are welcomed.

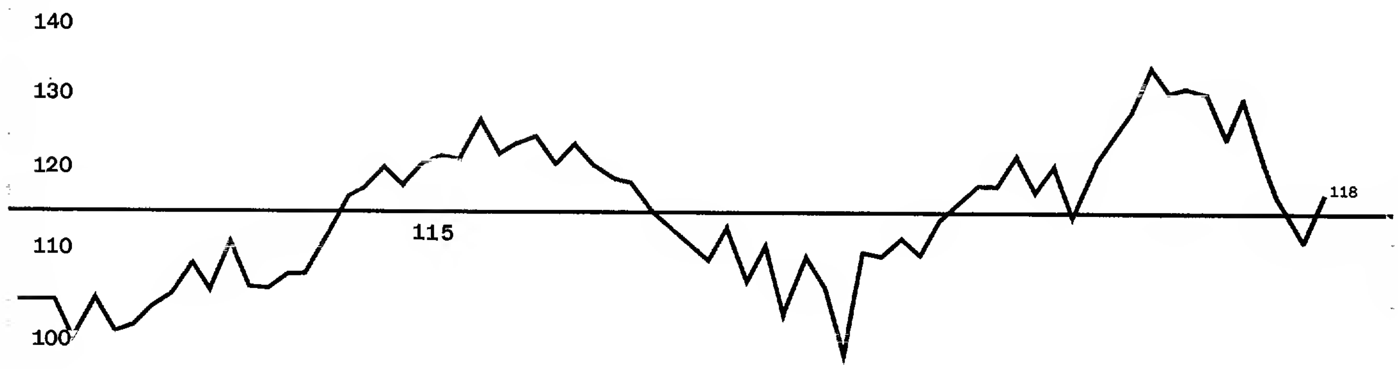
INDUSTRIAL PRODUCTION INDEX: 1970=100, seasonally adjusted



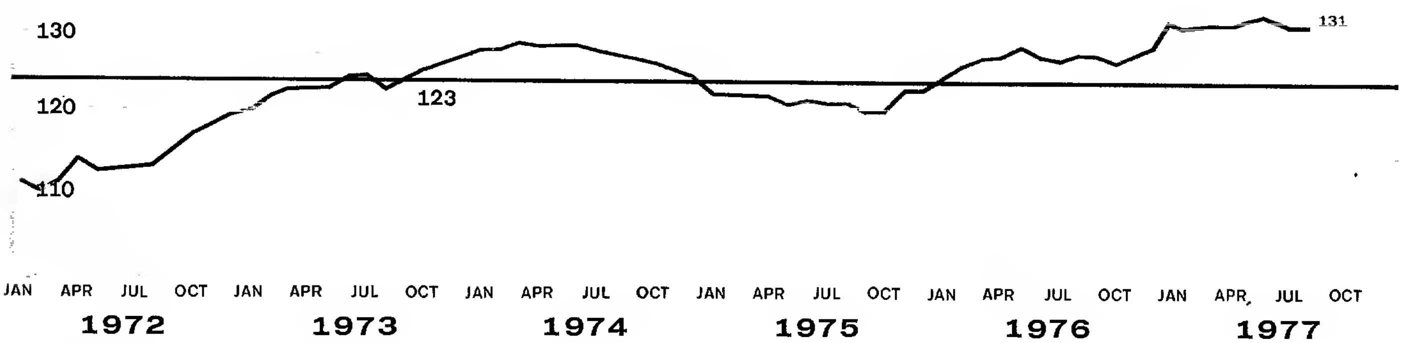
United Kingdom

Semilogarithmic Scale

Italy



Canada



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[1]
United States	OCT 77	0.3	3.6	6.7	2.4
Japan	OCT 77	−0.4	3.7	3.3	1.9
West Germany	SEP 77	−1.7	1.8	−0.9	−2.3
France	SEP 77	1.6	3.3	−3.1	−4.2
United Kingdom	SEP 77	−0.6	0.4	−1.7	0.6
Italy	SEP 77	6.5	2.4	−2.2	−29.1
Canada	AUG 77	0	3.9	2.7	0.3

[1]Average for latest 3 months compared with average for previous 3 months.

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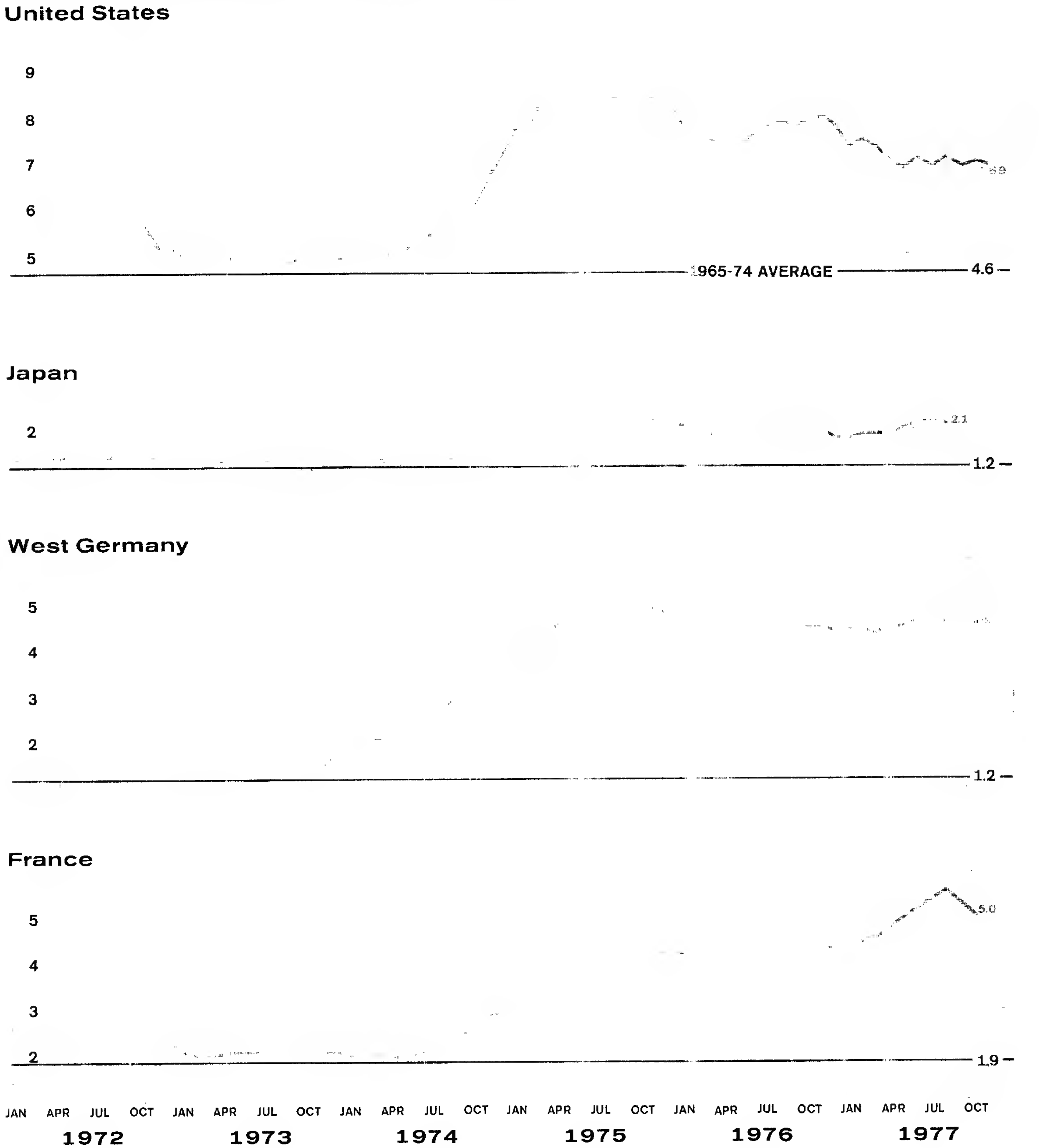
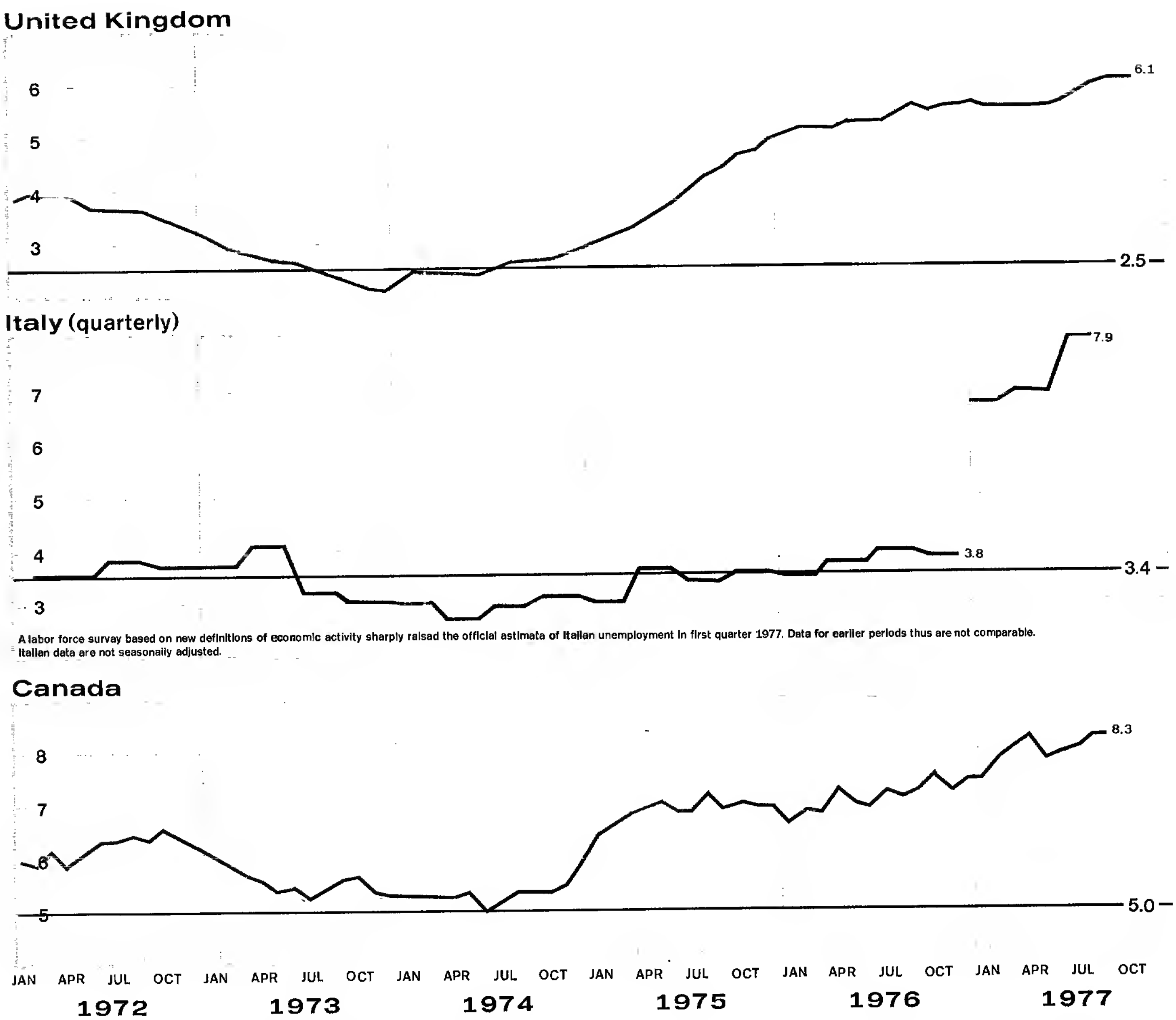
UNEMPLOYMENT PERCENT OF LABOR FORCE





THOUSANDS OF PERSONS UNEMPLOYED

	LATEST MONTH		1 Year Earlier	3 Months Earlier
United States	NOV 77	6,818	7,651	6,926
Japan	AUG 77	1,130	1,100	1,140
West Germany	OCT 77	1,041	1,026	1,051
France	OCT 77	1,100	935	1,180
United Kingdom	NOV 77	1,433	1,317	1,414
Italy	77 III	1,692	776	1,432
Canada	SEP 77	798	753	847

NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan, Italy and Canada are roughly comparable to US rates. For 1975-77, the rates for France and the United Kingdom should be increased by 5 percent and 15 percent respectively, and those for West Germany decreased by 20 percent to be roughly comparable with US rates.

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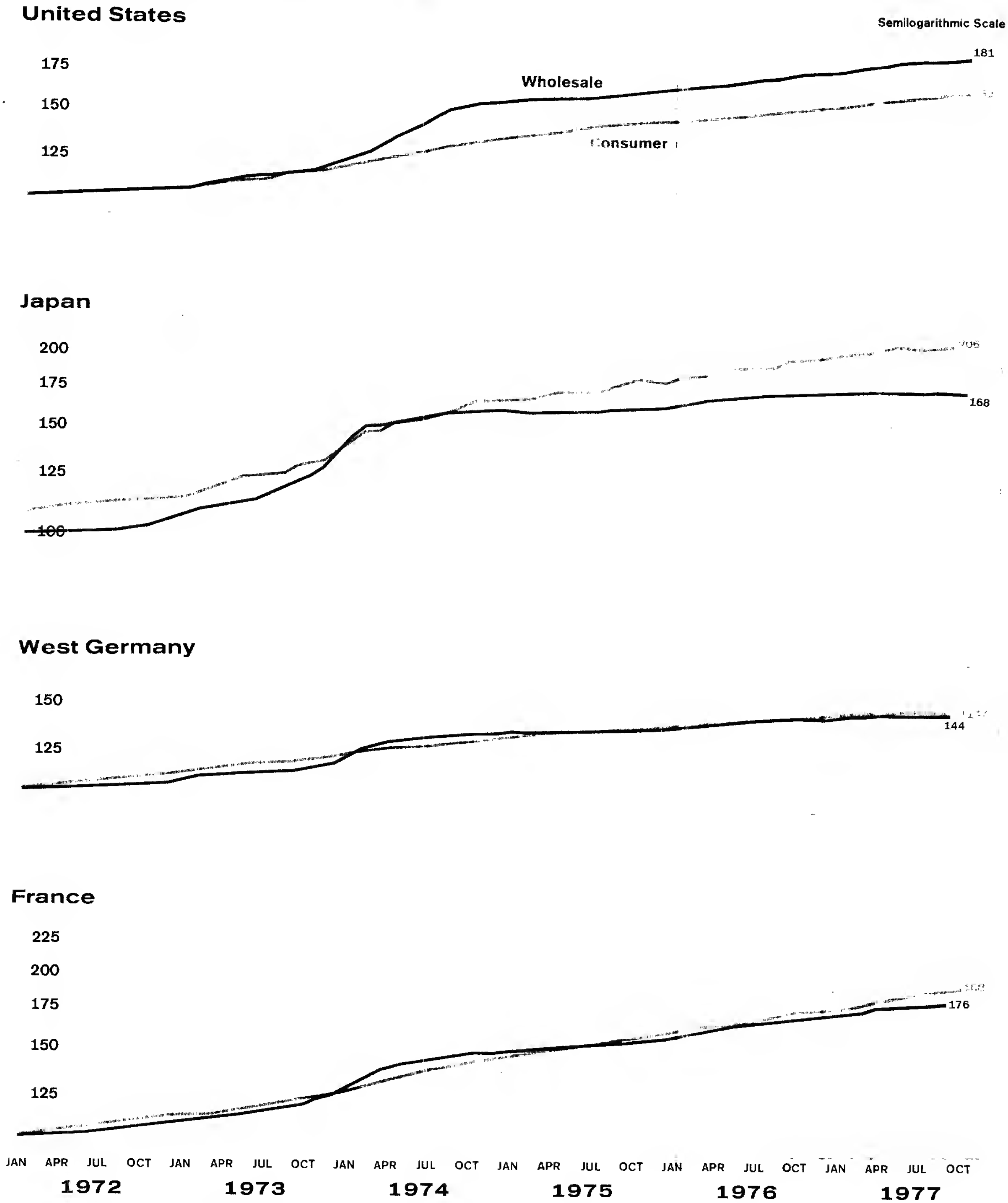
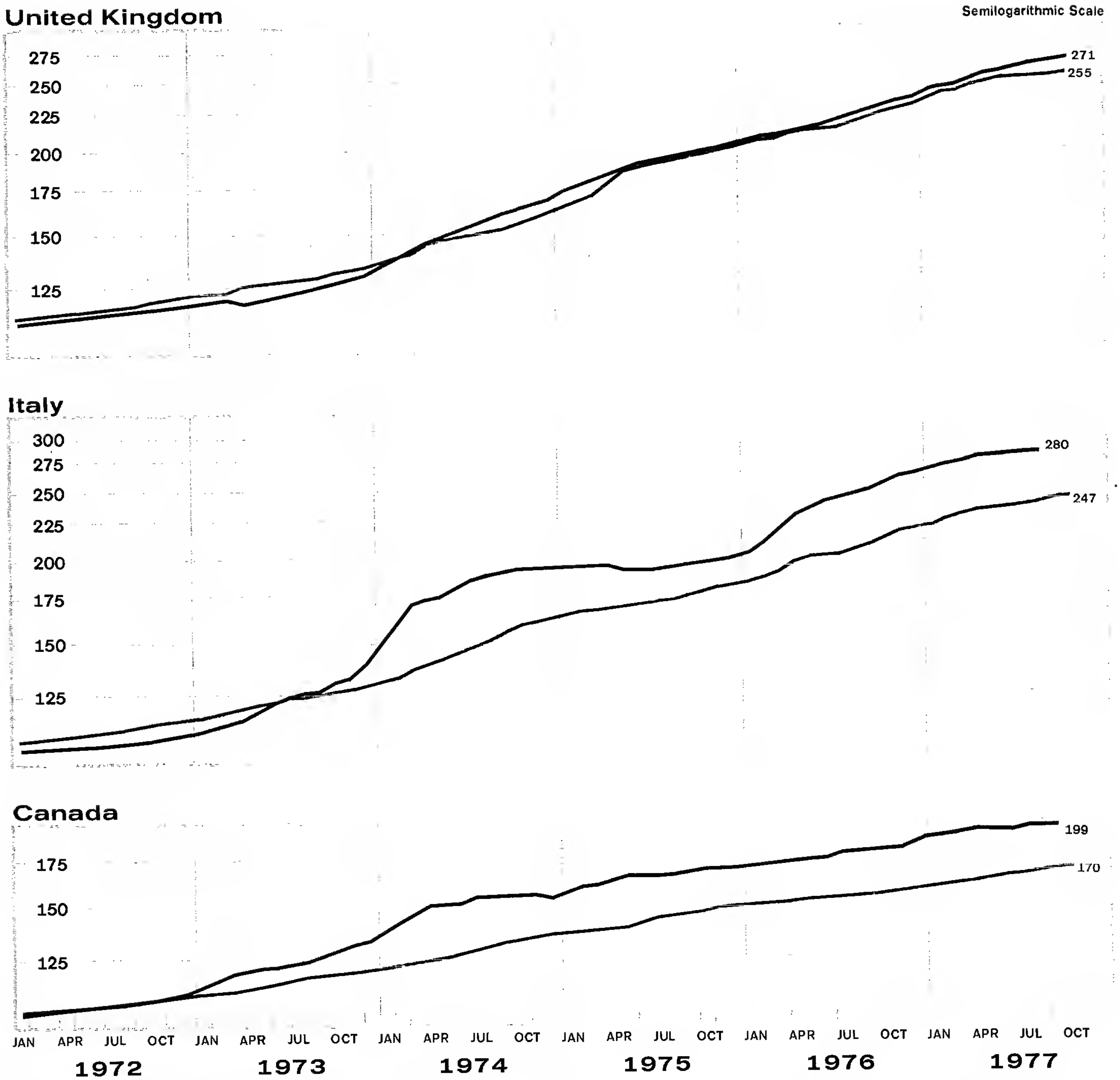
DOMESTIC PRICES[1] INDEX: 1970=100



[1]Wholesale price indexes cover industrial goods.



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier
United States	OCT 77	0.7	8.5	6.9	6.9
	OCT 77	0.3	6.5	6.5	4.2
Japan	OCT 77	−0.3	7.4	0.1	0
	SEP 77	1.8	10.5	7.6	6.2
West Germany	SEP 77	−0.1	5.1	1.6	−0.6
	OCT 77	0.1	5.4	3.8	−0.3
France	SEP 77	0.6	8.2	6.1	5.4
	OCT 77	0.8	9.1	9.5	9.2

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier
United Kingdom	OCT 77	0.6	14.6	17.8	7.9
	OCT 77	0.4	13.7	14.1	6.0
Italy	AUG 77	0.5	15.6	14.3	4.6
	OCT 77	1.1	13.2	16.6	11.9
Canada	SEP 77	0.1	10.0	9.5	9.3
	OCT 77	1.0	7.5	8.8	8.1

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GNP[1]

Constant Market Prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	77 III	0.9	3.2	4.6	3.8
Japan	77 III	0.5	5.4	5.1	1.8
West Germany	77 II	−0.2	6.3	2.4	−0.8
France	76 IV	0	3.9	4.9	0
United Kingdom	77 II	0.7	1.6	1.9	2.9
Italy	77 II	−1.9	2.8	2.8	−7.3
Canada	77 III	1.3	4.9	2.5	5.3

[1] Seasonally adjusted.

RETAIL SALES[1]

Constant Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier[2]
United States	Oct 77	1.7	3.2	5.3	2.0
Japan	Jun 77	−0.1	9.8	2.6	1.4
West Germany	Sep 77	−0.8	2.3	1.7	9.5
France	Jun 77	7.7	−0.3	1.0	−8.1
United Kingdom	Oct 77	−0.2	0.9	−1.9	5.4
Italy	Jun 77	2.6	3.8	3.4	−6.8
Canada	Aug 77	4.7	4.5	1.3	−0.5

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

FIXED INVESTMENT[1]

Non-residential; constant prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	77 III	1.0	2.1	7.8	4.2
Japan	77 II	0.5	1.1	4.5	2.0
West Germany	77 II	−1.6	0.4	3.4	−6.4
France	75 IV	8.8	4.2	2.9	40.1
United Kingdom	77 II	11.2	1.7	8.0	53.2
Italy	77 II	−7.8	2.5	10.3	−27.6
Canada	77 III	−1.1	5.8	3.2	−4.2

[1] Seasonally adjusted.

WAGES IN MANUFACTURING[1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier[2]
United States	Sep 77	0.4	7.5	6.6	6.5
Japan	Aug 77	2.2	17.0	9.8	8.7
West Germany	77 III	1.2	9.3	7.4	5.0
France	77 I	2.3	14.1	13.9	9.5
United Kingdom	Aug 77	0	15.3	3.0	3.5
Italy	Aug 77	3.7	21.0	23.8	23.7
Canada	Aug 77	0.2	11.2	9.9	10.2

[1] Hourly earnings (seasonally adjusted) for the United States, Japan, and Canada; hourly wage rates for others. West German and French data refer to the beginning of the quarter.
[2] Average for latest 3 months compared with that for previous 3 months.

MONEY MARKET RATES

	Representative rates	Latest Date	Percent Rate of Interest	1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Commerical paper	Dec 7	6.54	4.68	6.01	6.57
Japan	Call money	Dec 9	5.00	7.00	4.88	4.63
West Germany	Interbank loans (3 months)	Dec 7	4.21	4.70	4.07	4.09
France	Call money	Dec 9	9.38	10.50	8.50	9.13
United Kingdom	Sterling interbank loans (3 months)	Dec 9	6.96	14.55	6.09	4.83
Canada	Finance paper	Dec 9	7.37	8.65	7.50	7.38
Eurodollars	Three-month deposits	Dec 9	6.99	4.95	6.49	7.23

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Oct 77	−0.8	9.2	1.9	−1.3
Japan	Jul 77	−1.8	10.4	10.4	−4.4
West Germany	Sep 77	−1.5	11.0	6.2	3.6
France	Sep 77	−1.4	11.2	8.3	12.1
United Kingdom	Oct 77	1.9	11.1	23.2	26.1
Italy	Jul 77	1.7	11.3	13.3	18.9
Canada	Aug 77	3.0	9.9	1.5	17.1

EXPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Oct 77	0.8	9.2	1.9	−1.3
Japan	Jul 77	−1.0	6.3	3.1	−5.3
West Germany	Sep 77	−1.2	4.2	−1.2	−2.3
France	Sep 77	−0.9	9.4	8.5	10.1
United Kingdom	Oct 77	0.4	15.9	14.3	13.6
Italy	Jul 77	1.4	16.9	19.4	16.4
Canada	Aug 77	3.9	10.2	10.2	27.0

IMPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Oct 77	−0.3	13.0	7.6	3.3
Japan	Jul 77	−1.5	10.5	−2.3	7.0
West Germany	Sep 77	−2.3	4.0	−1.3	−5.5
France	Sep 77	−1.0	10.1	7.4	0.6
United Kingdom	Oct 77	−0.4	18.7	8.3	−6.3
Italy	Jul 77	−1.6	20.7	15.3	10.4
Canada	Aug 77	3.2	9.3	15.5	31.3

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Billion US $	Billion US $: Jun 1970	1 Year Earlier	3 Months Earlier
United States	Oct 77	19.0	14.5	19.0	18.9
Japan	Oct 77	19.6	4.1	16.6	17.6
West Germany	Oct 77	35.7	8.8	35.8	35.1
France	Oct 77	10.1	4.4	9.6	9.9
United Kingdom	Oct 77	20.2	2.8	4.8	13.4
Italy	Oct 77	11.1	4.7	5.4	10.5
Canada	Aug 77	4.8	4.3	5.6	5.2

CURRENT ACCOUNT BALANCE [1]

	Latest Period	Million US $	Cumulative (Million US $): 1977	1976	Change
United States [2]	77 II	−4,605	−8,763	1,070	−9,833
Japan	Oct 77	1,356	7,834	2,452	5,382
West Germany	Oct 77	1,133	1,252	1,549	−297
France	77 II	−438	−2,101	−2,052	−50
United Kingdom	77 II	−474	−1,490	−1,277	−213
Italy	77 II	161	−768	−2,859	2,091
Canada	77 II	−1,407	−2,956	−3,088	132

[1] Converted to US dollars at the current market rates of exchange.
[2] Seasonally adjusted.

BASIC BALANCE [1]
Current and Long-Term-Capital Transactions

	Latest Period	Million US $	Cumulative (Million US $): 1977	1976	Change
United States		No longer published [2]			
Japan	Oct 77	739	5,161	1,895	3,266
West Germany	Sep 77	−1,341	−4,642	1,655	−6,297
France	77 I	−1,354	−1,354	−2,015	660
United Kingdom	77 II	1,409	2,075	−1,119	3,195
Italy	77 II	97	−395	−2,963	2,568
Canada	77 II	−217	−791	1,701	−2,493

[1] Converted to US dollars at the current market rates of exchange.
[2] As recommended by the Advisory Committee on the Presentation of Balance of Payments Statistics, the Department of Commerce no longer publishes a basic balance.

EXCHANGE RATES
Spot Rate
As of 9 Dec 77

	US $ Per Unit	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	2 Dec 77
Japan (yen)	0.0041	8.73	22.01	10.35	0.19
West Germany (Deutsche mark)	0.4566	28.95	9.36	6.21	0.72
France (franc)	0.2067	−6.20	2.88	2.00	0.12
United Kingdom (pound sterling)	1.8310	−25.60	9.67	5.07	0.60
Italy (lira)	0.0011	−35.71	−1.56	0.53	−0.26
Canada (dollar)	0.9140	−8.39	−6.36	−1.79	1.32

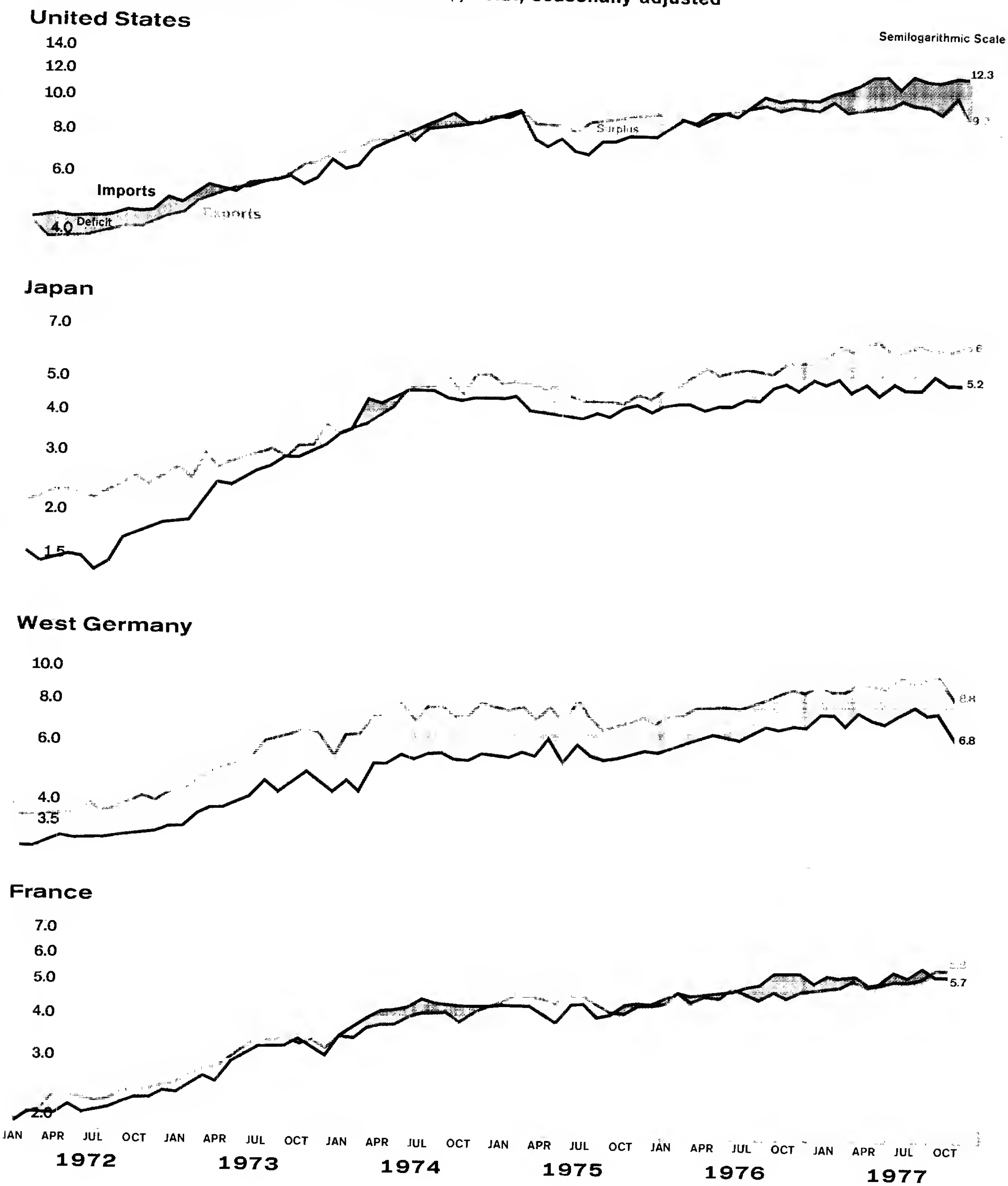
TRADE-WEIGHTED EXCHANGE RATES [1]
As of 9 Dec 77

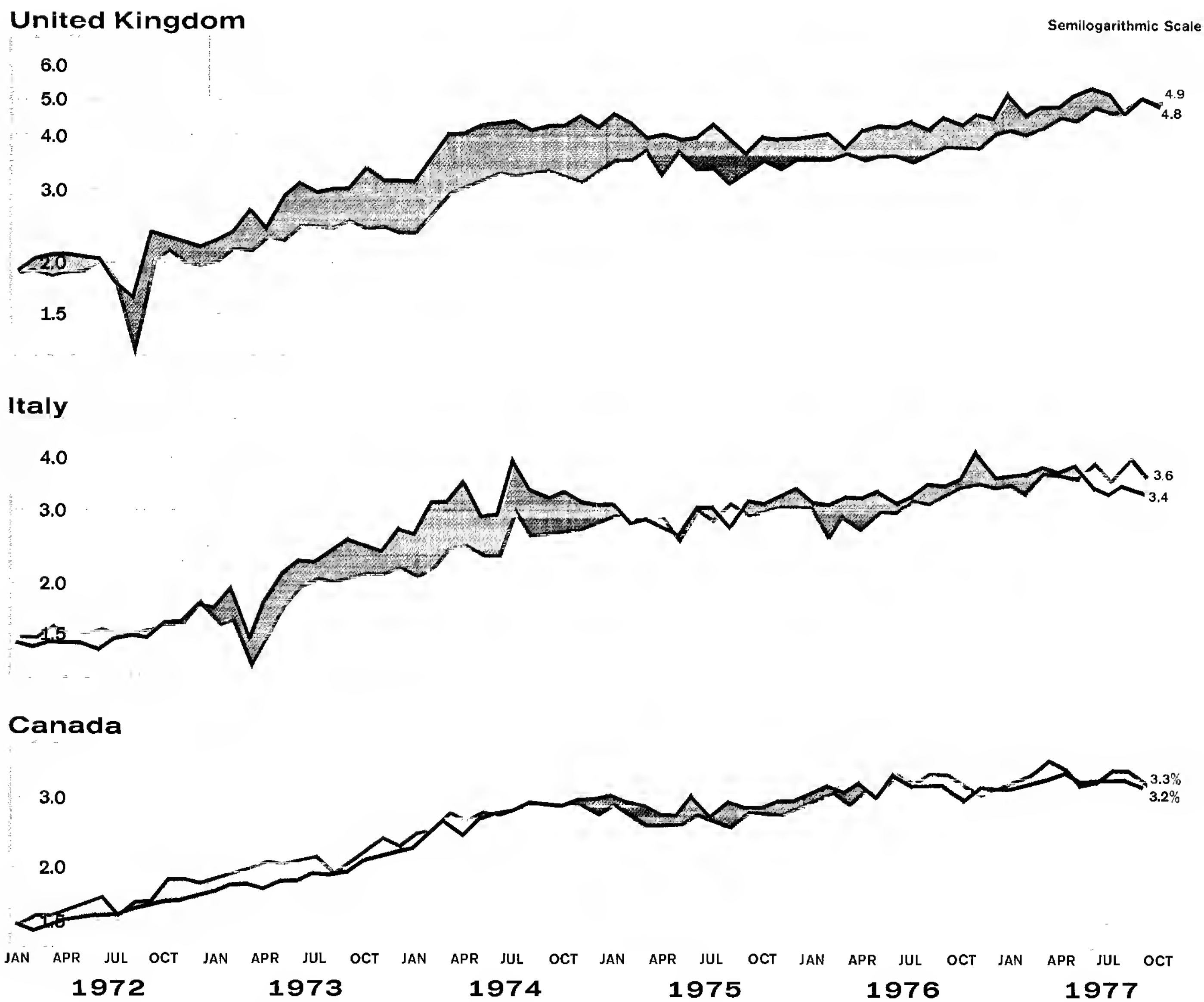
	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	2 Dec 77
United States	3.27	−3.31	−2.94	−0.70
Japan	14.02	20.04	9.02	−0.07
West Germany	30.01	6.16	3.00	0.39
France	−9.71	−1.69	−2.02	−0.32
United Kingdom	−27.46	7.54	2.11	0.21
Italy	−40.40	−6.15	−3.24	−0.68
Canada	−7.38	−8.13	−2.96	1.24

[1] Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange rate variations among the major currencies.

FOREIGN TRADE

BILLION US $, f.o.b., seasonally adjusted





	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1977	1976	CHANGE
United States	OCT 77	9,190	99,774	94,870	5.2%
		12,288	122,170	98,852	23.6%
	Balance	−3,098	−22,396	−3,982	18,414
Japan	OCT 77	6,580	65,066	54,025	20.4%
		5,168	51,065	45,731	11.7%
	Balance	1,412	14,001	8,294	5,707
West Germany	OCT 77	8,763	94,989	83,081	14.3%
		6,798	77,617	68,099	14.0%
	Balance	1,965	17,372	14,982	2,390
France	OCT 77	5,768	53,474	46,978	13.8%
		5,742	55,573	50,154	10.8%
	Balance	26	−2,098	−3,176	1,078

	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1977	1976	CHANGE
United Kingdom	OCT 77	4,894	46,020	36,432	26.3%
		4,839	48,927	41,814	17.0%
	Balance	55	−2,907	−5,383	2,475
Italy	SEP 77	3,608	32,833	26,553	23.7%
		3,357	32,430	29,079	11.5%
	Balance	251	403	−2,526	2,929
Canada	SEP 77	3,270	31,191	28,891	8.0%
		3,215	29,858	28,520	4.7%
	Balance	55	1,333	370	963

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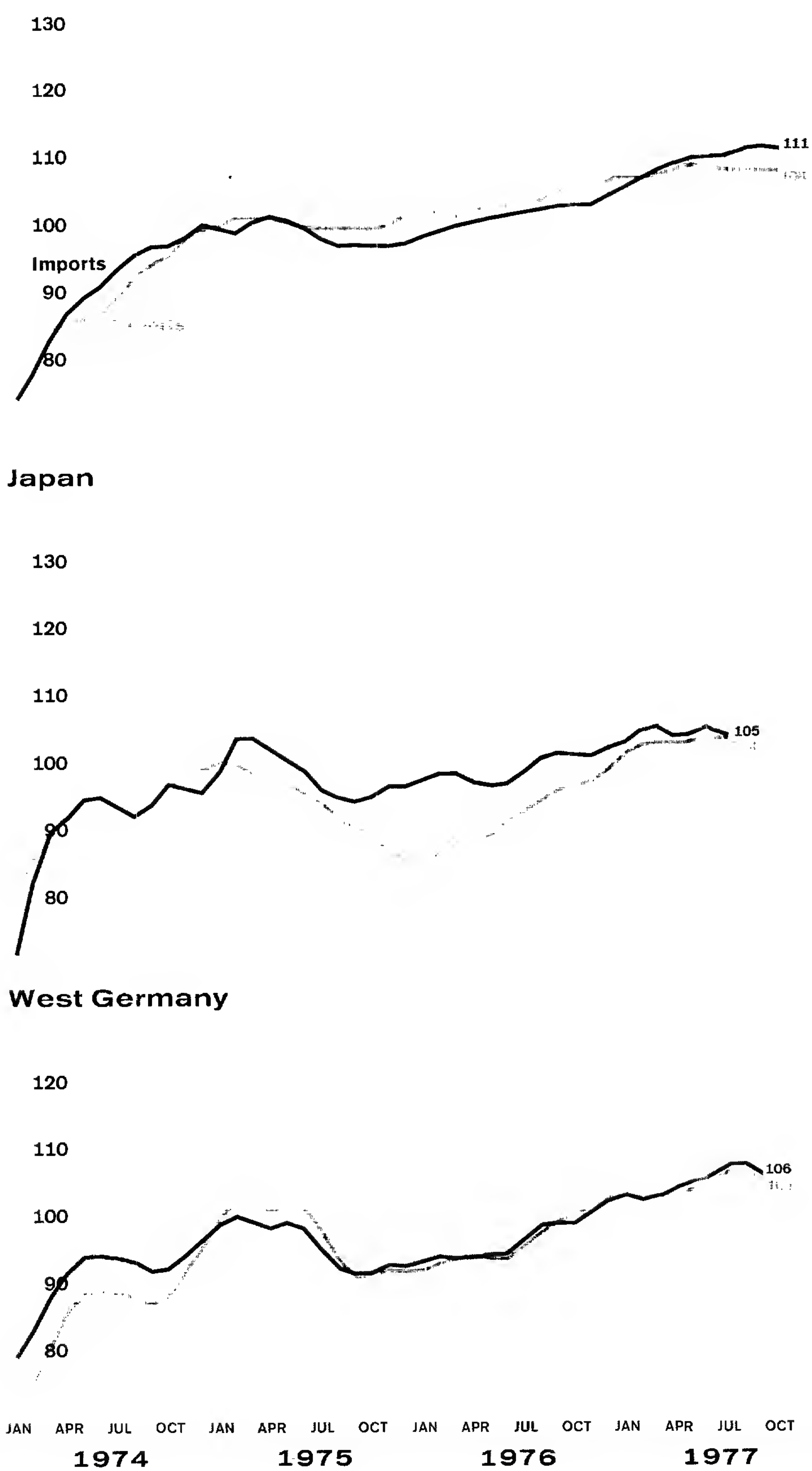
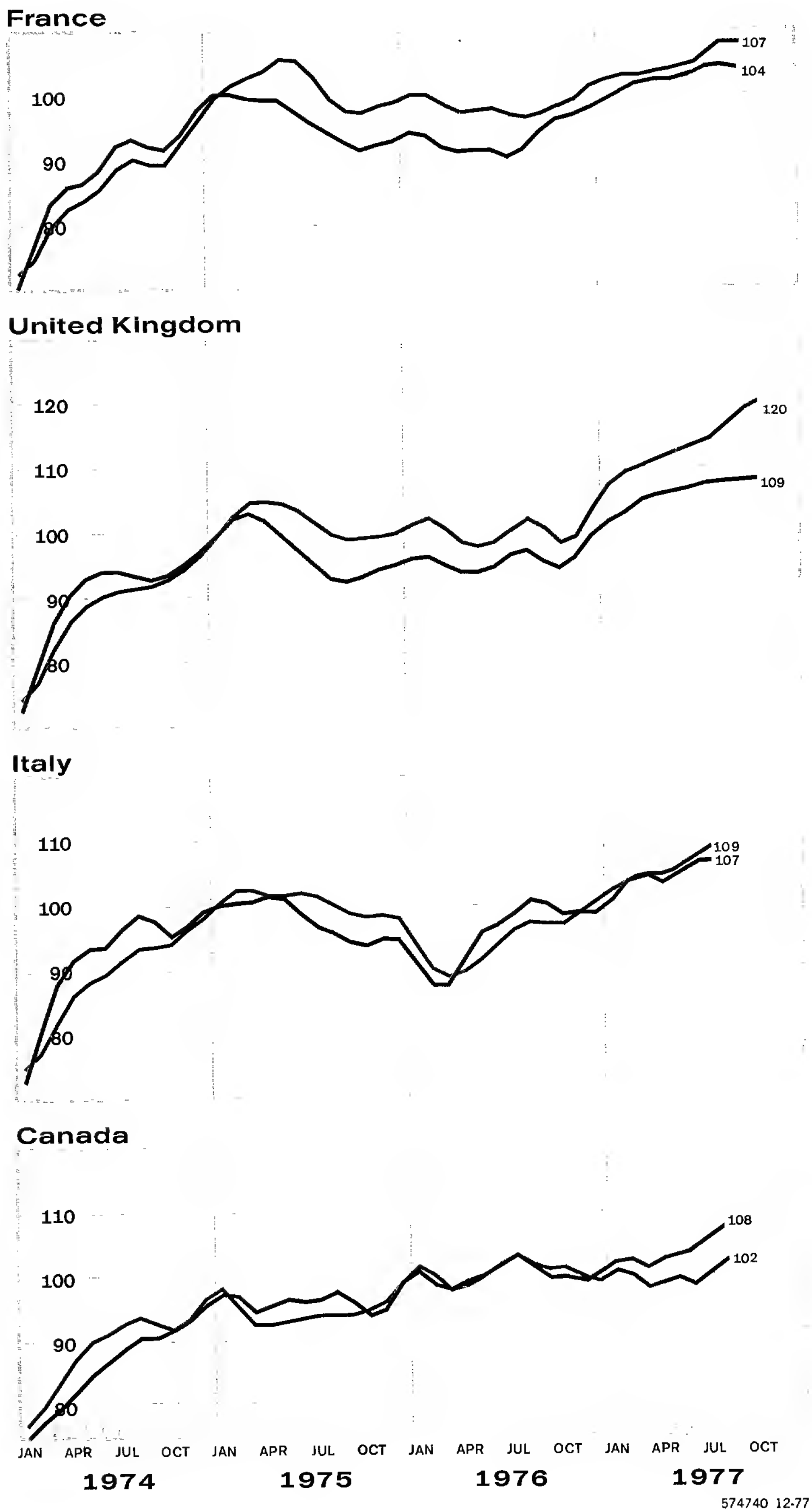
FOREIGN TRADE PRICES IN US $[1]

United States INDEX: JAN 1975 =100



[1]Export and import plots are based on five month weighted moving averages.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SELECTED DEVELOPING COUNTRIES

INDUSTRIAL PRODUCTION [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since: 1970	1 Year Earlier	3 Months Earlier [2]
Brazil	76 II	0.1	11.0	10.7	0.4
India	Jul 77	−4.7	4.3	2.0	−7.2
South Korea	Aug 77	4.7	22.7	13.6	49.3
Mexico	Jul 77	1.0	6.0	4.7	21.6
Nigeria	76 IV	0.2	11.3	9.0	0.7
Taiwan	Sep 77	7.2	15.0	12.3	−2.0

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

MONEY SUPPLY [1]

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since: 1970	1 Year Earlier
Brazil	Aug 77	0	36.7	46.2
India	Jun 77	0.3	12.0	16.9
Iran	Aug 77	1.6	28.3	15.6
South Korea	Sep 77	9.5	32.6	56.3
Mexico	Aug 77	0.7	18.7	30.1
Nigeria	Apr 77	−2.3	36.9	47.5
Taiwan	Jul 77	1.4	24.4	27.1
Thailand	Jun 77	−1.8	13.1	12.0

[1] Seasonally adjusted.

CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since: 1970	1 Year Earlier
Brazil	Oct 77	2.7	27.2	42.1
India	Sep 77	1.2	8.5	9.6
Iran	Sep 77	0.7	12.3	30.2
South Korea	Sep 77	0.3	14.5	9.2
Mexico	Sep 77	1.8	15.0	32.2
Nigera	Apr 77	2.9	15.2	16.0
Taiwan	Sep 77	−1.9	10.9	10.4
Thailand	Aug 77	1.1	8.7	9.9

WHOLESALE PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since: 1970	1 Year Earlier
Brazil	Sep 77	1.6	27.1	34.4
India	Sep 77	0	9.2	4.8
Iran	Oct 77	0.5	10.1	13.1
South Korea	Sep 77	0.7	16.3	9.4
Mexico	Sep 77	0.5	16.5	44.6
Taiwan	Sep 77	−0.5	8.9	3.8
Thailand	Jul 77	1.0	10.1	7.1

EXPORT PRICES

US $

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since: 1970	1 Year Earlier
Brazil	Jul 77	−12.4	16.3	28.4
India	Feb 77	8.0	10.4	8.9
Iran	Aug 77	0	35.0	18.7
South Korea	77 II	1.4	8.7	8.5
Nigeria	May 76	−0.1	27.3	12.3
Taiwan	Aug 77	−0.3	11.8	5.3
Thailand	Dec 76	2.0	13.3	13.1

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Million US $	Million US $: Jun 1970	1 Year Earlier	3 Months Earlier
Brazil	Jun 77	5,707	1,013	3,716	5,863
India	Oct 77	4,886	1,006	2,778	4,395
Iran	Oct 77	11,547	208	8,542	11,592
South Korea	Sep 77	4,040	602	2,374	3,502
Mexico	Mar 76	1,501	695	1,479	1,533
Nigeria	Aug 77	4,610	148	5,842	4,740
Taiwan	Aug 77	1,416	531	1,586	1,331
Thailand	Oct 77	1,906	978	1,937	2,017

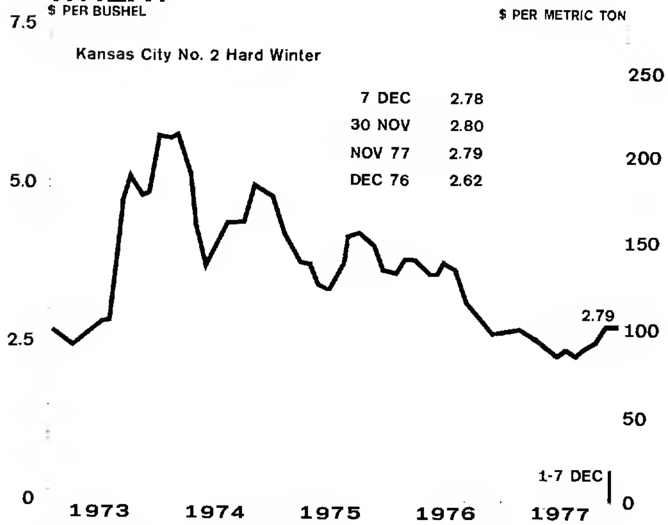
FOREIGN TRADE, f.o.b.

	Latest Period		Latest 3 Months Percent Change from		Cumulative (Million US $)		
			3 Months Earlier[1]	1 Year Earlier	1977	1976	Change
Brazil	Oct 77	Exports	−47.7	5.0	10,171	8,119	25.3%
	Oct 77	Imports	11.4	−4.4	9,989	10,250	−2.5%
	Oct 77	Balance			182	−2,131	2,313
India	Jul 77	Exports	−42.6	1.8	3,165	2,923	8.3%
	Jul 77	Imports	10.6	2.7	2,529	2,480	2.0%
	Jul 77	Balance			636	443	193
Iran	Sep 77	Exports	0.2	−0.3	17,793	16,865	5.5%
	Sep 77	Imports	2.8	3.5	9,479	9,301	1.9%
	Sep 77	Balance			8,313	7,564	749
South Korea	Aug 77	Exports	43.9	20.3	6,217	4,838	28.5%
	Aug 77	Imports	16.4	18.8	6,265	5,121	22.3%
	Aug 77	Balance			−47	−283	235
Mexico	Aug 77	Exports	−46.9	30.5	2,743	2,125	29.1%
	Aug 77	Imports	101.8	−16.5	3,260	4,070	−19.9%
	Aug 77	Balance			−517	−1,945	1,428
Nigeria	Jul 77	Exports	18.3	22.8	2,853	2,259	26.3%
	Dec 76	Imports	86.7	8.4	2,531	1,990	27.2%
	Dec 76	Balance			1,502	1,102	399
Taiwan	Sep 77	Exports	28.7	9.0	6,637	5,902	12.5%
	Sep 77	Imports	−13.9	6.1	5,722	5,111	11.9%
	Sep 77	Balance			915	790	125
Thailand	Aug 77	Exports	−18.7	26.3	2,392	1,911	25.2%
	Aug 77	Imports	28.4	40.2	2,716	2,101	29.3%
	Aug 77	Balance			−324	−190	−134

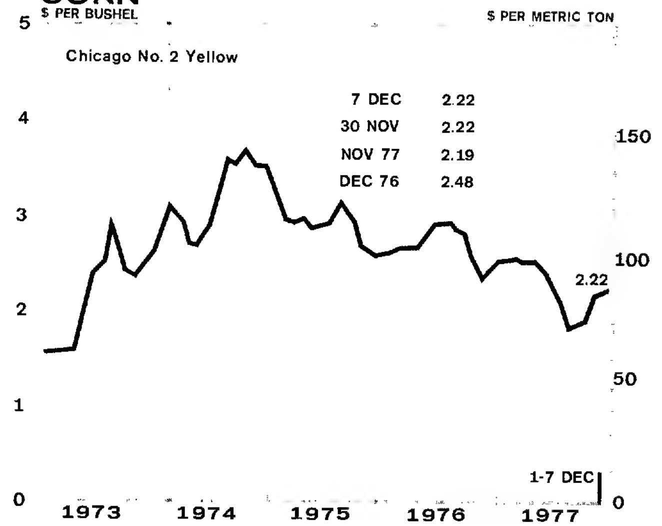
[1] At annual rates.

AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

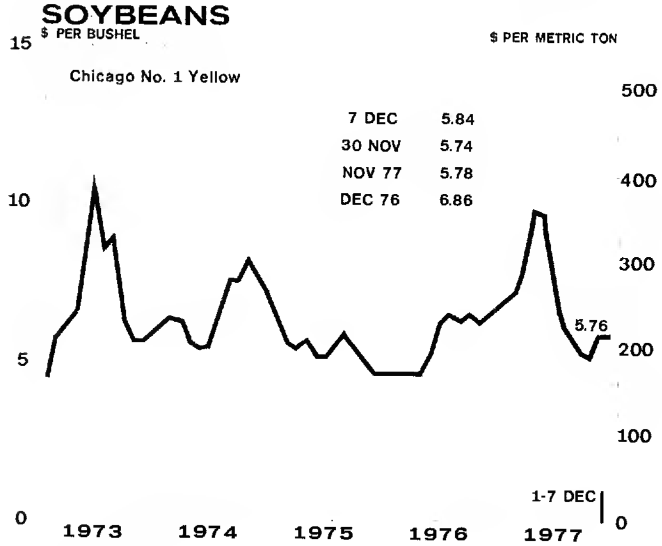
WHEAT



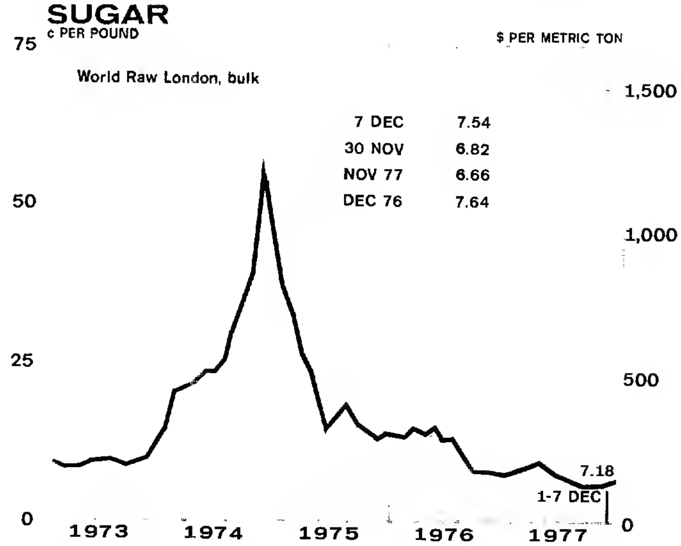
CORN



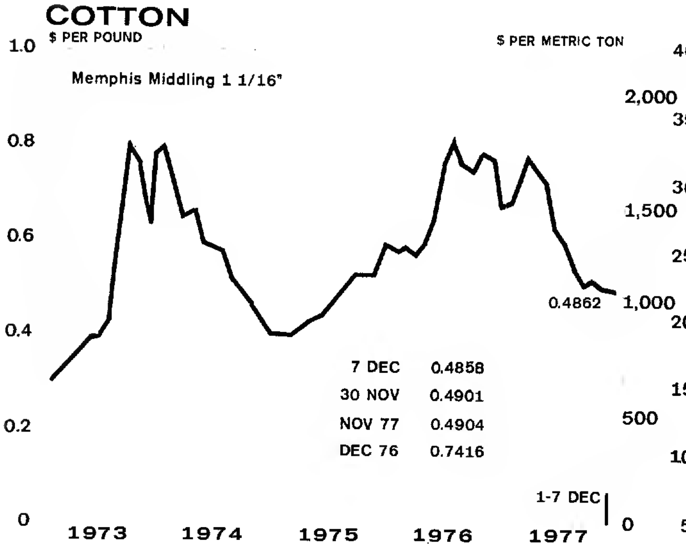
SOYBEANS



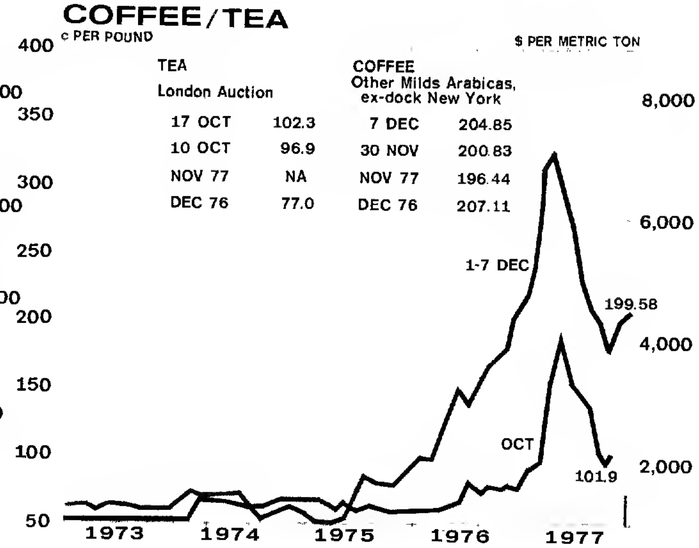
SUGAR

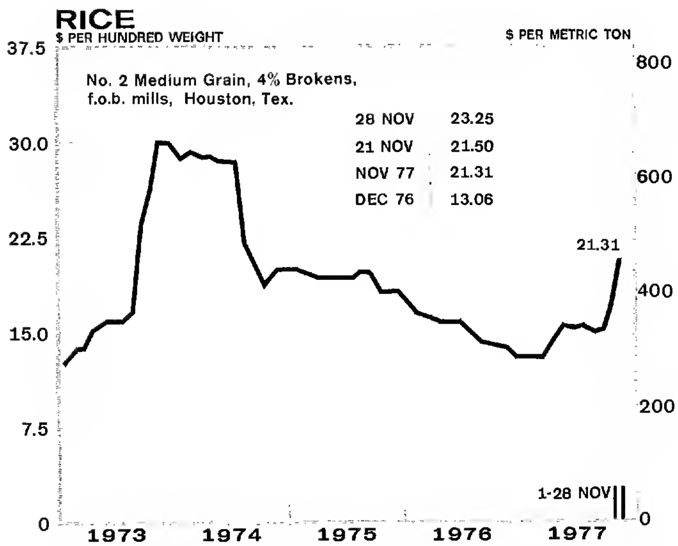


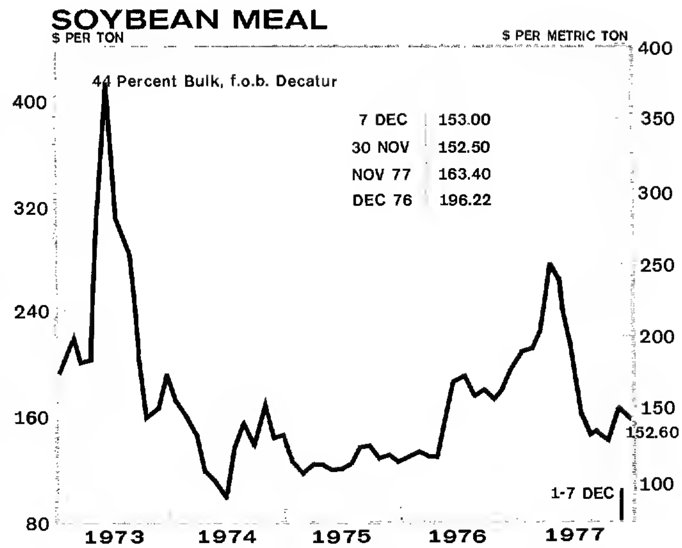
COTTON

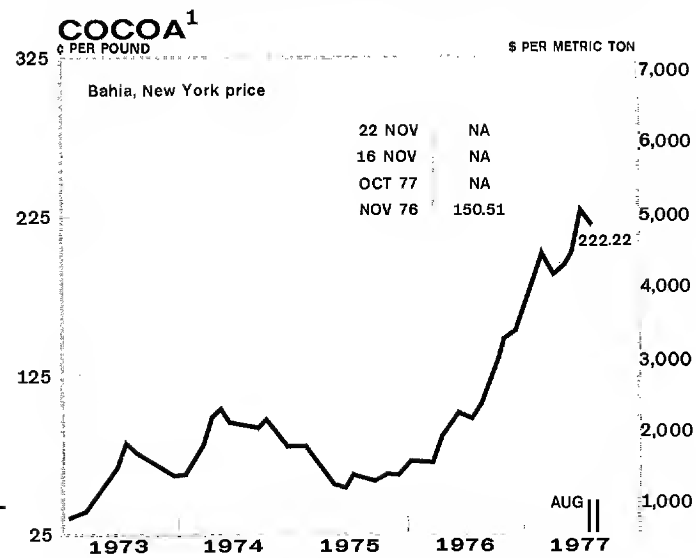


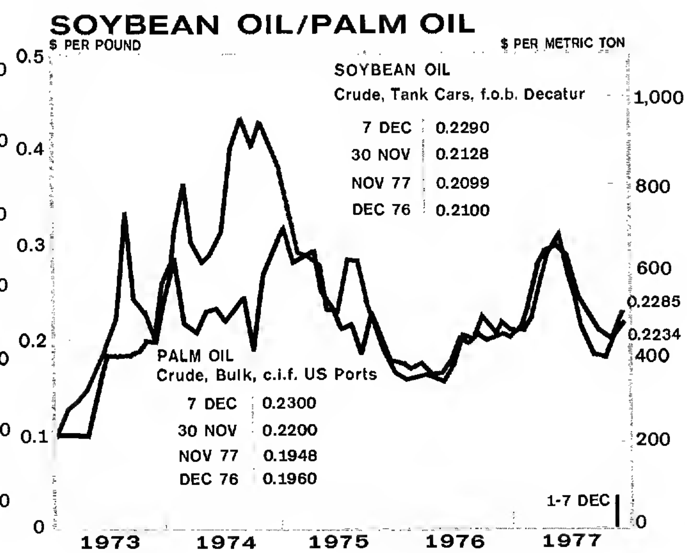
COFFEE/TEA

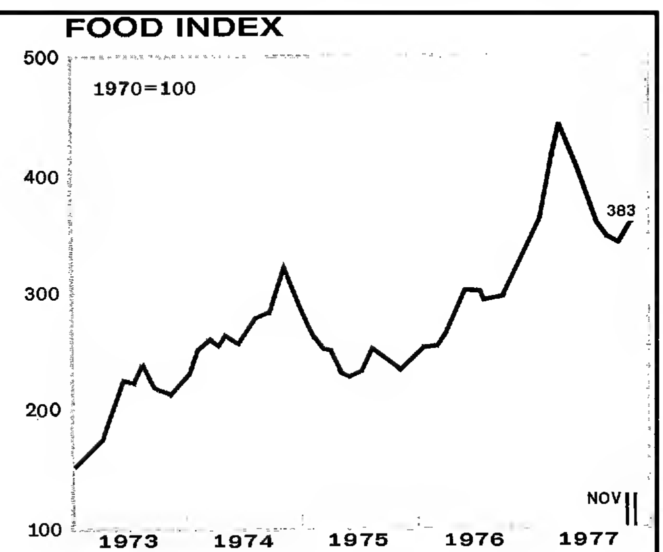












1 The chart on Cocoa prices will be deleted because the data are not available.

NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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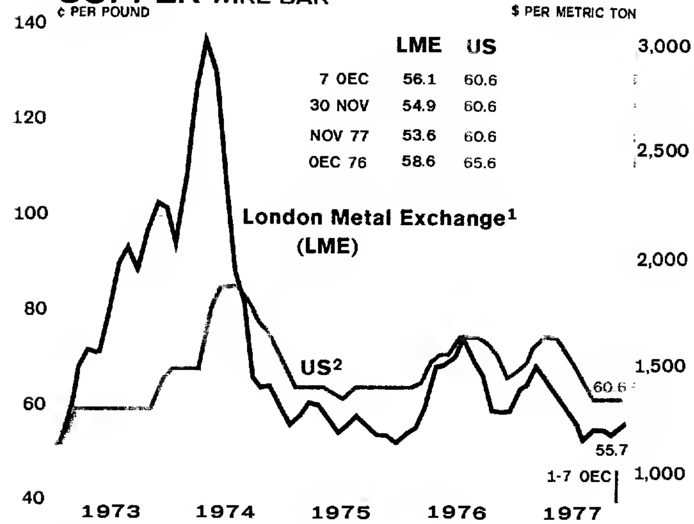
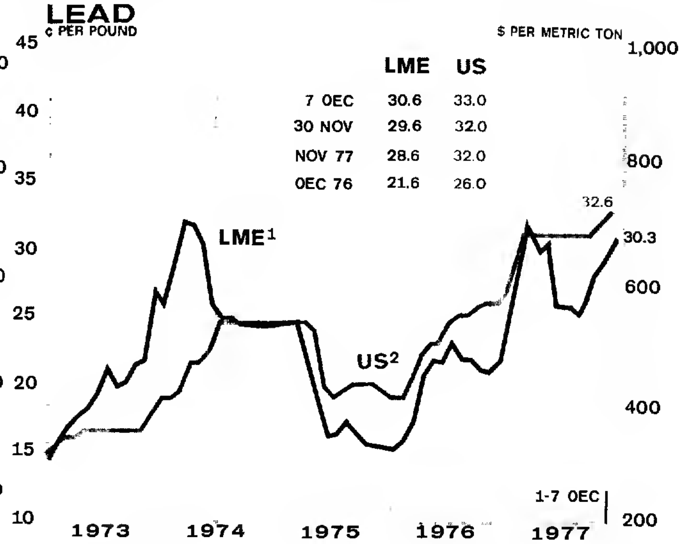
INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE

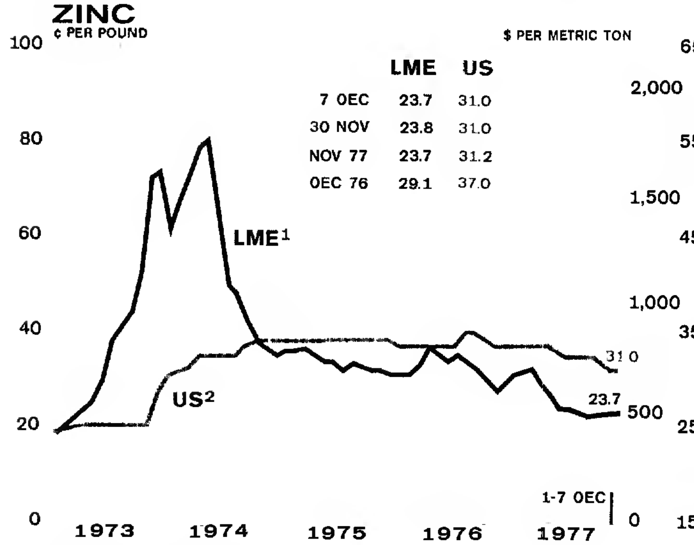
COPPER WIRE BAR



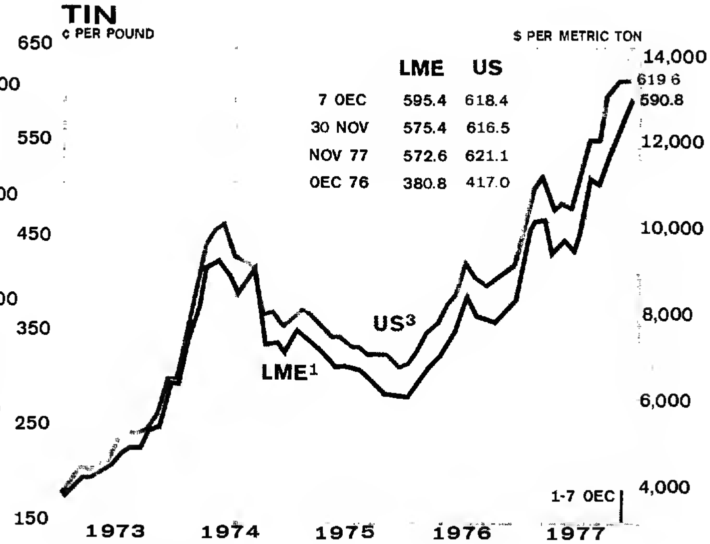
LEAD



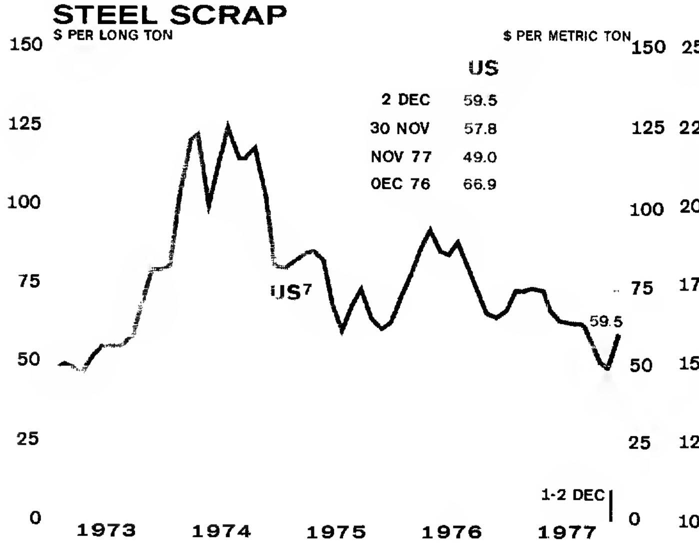
ZINC



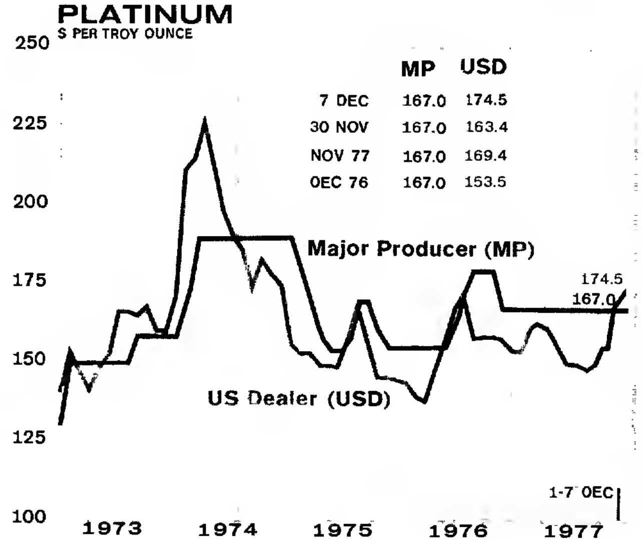
TIN



STEEL SCRAP



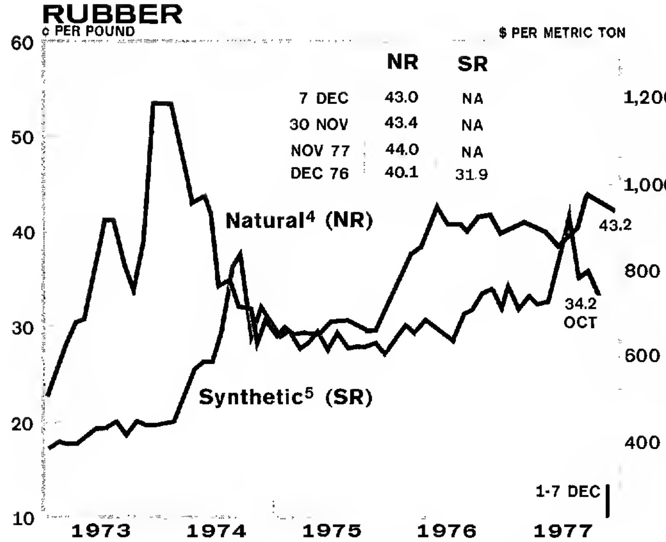
PLATINUM



SELECTED MATERIALS

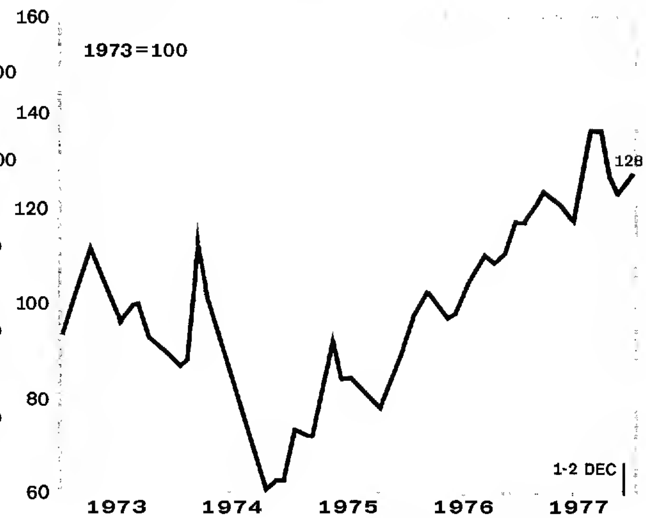
			CURRENT	JUN '77	DEC 76	DEC 75
ALUMINUM	Major US Producer	¢ per pound	53.00	44.00	48.00	41.00
US STEEL	Composite	$ per long ton	359.36	316.36	333.78	308.72
IRON ORE	Non-Bassemer Old Range	$ per long ton	21.43	19.50	20.51	18.75
CHROME ORE	Russian, Metallurgical Grade	$ per metric ton	150.00	150.00	150.00	150.00
CHROME ORE	S. Africa, Chemical Grade	$ per long ton	58.50	39.00	42.00	44.50
FERROCHROME	US Producer, 66-70 Percent	¢ per pound	41.00	45.00	43.00	52.00
NICKEL	Composite US Producer	$ per pound	2.07	2.20	2.41	2.20
MANGANESE ORE	48 Percent Mn	$ per long ton	72.24	72.00	72.00	67.20
TUNGSTEN ORE	Contained Metal	$ per metric ton	21,500.63	13,954.00	18,352.00	10,960.00
MERCURY	NY	$ per 76 pound flask	123.00	110.00	134.50	120.00
SILVER	LME Cash	¢ per troy ounce	474.40	478.82	434.62	408.93
GOLD	London Afternoon Fixing Price	$ per troy ounce	159.98	125.71	133.79	139.30

RUBBER



CPYRGHT

LUMBER INDEX[6]



INDUSTRIAL MATERIALS INDEX

[1]Approximates world market price frequently usad by major world producers and tradars, although only small quantities of these metals are actually traded on the LME.

[2]Producers' price, covers most primary metals sold in the US.

[3]As of 1 Dec 75, US tin price quoted is "Tin NY lb composite."

[4]Quoted on New York market.

[5]S-type styrene, US export price.

[6]This index is compiled by using the average of 13 types of lumber whose pricas are regarded as "bell wethers" of US lumber construction costs.

[7]Composite price for Chicago, Philadelphia, and Pittsburgh.

NOTE: The industrial materials index is compiled by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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Next 45 Page(s) In Document Exempt